

CHINA VALVES TECHNOLOGY, INC  
Form 10-K  
March 29, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the fiscal year ended: December 31, 2009

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34542

**CHINA VALVES TECHNOLOGY, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation  
or organization)

**86-0891931**

(I.R.S. Employer Identification Number)

**No. 93 West Xinsong Road, Kaifeng City, Henan  
Province People's Republic of China**

(Address of principal executive office and zip code)

**(86) 378-2925211**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class:</b>	<b>Name of Each Exchange on Which Registered:</b>
Common Stock, \$.001 par value	The Nasdaq Stock Market LLC (Nasdaq Global Market)

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x]  
No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes

No

The issuer's revenues for its most recent fiscal year ended December 31, 2009, were \$95.4million.

As of June 30, 2009, the aggregate market value of shares of the issuer's common stock held by non-affiliates (based upon the average bid and asked price of \$4.80 of such shares on such date as reported on the Over-the-Counter Bulletin Board) was approximately \$67.7 million. As of December 31, 2009, the aggregate market value of shares of the issuer's common stock held by non-affiliates was approximately \$293.2 million. Shares of the issuer's common stock held by each executive officer and director and by each person who owns 10 percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates of the issuer. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 34,552,107 shares of common stock outstanding as of March 23, 2010.

**DOCUMENTS INCORPORATED BY REFERENCE:**

None

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## INTRODUCTORY NOTE

### Use of Terms

In this report, unless indicated otherwise, references to

- China Fluid Equipment are references to China Fluid Equipment Holdings Limited incorporated in Hong Kong;
- China Valves, the Company, we, us and our are references to the combined business of China Valves Technology, Inc. and its subsidiaries, China Fluid Equipment, Henan Tonghai Fluid, High Pressure Valve, Zhengdie Valve and Taizhou Taide Valve;
- China Valve Hong Kong are references to China Valve Holdings Limited incorporated in Hong Kong;
- China Valve Samoa are references to China Valve Holdings Limited incorporated in Samoa;
- China and PRC are references to the People's Republic of China;
- \$ are references to the legal currency of the United States.
- Henan Tonghai Fluid are references to Henan Tonghai Fluid Equipment Co., Ltd.;
- Henan Tonghai Valve are references to Henan Tonghai Valve Technology Co., Ltd.;
- HKD are references to the Hong Kong Dollar;
- High Pressure Valve are references to Henan Kaifeng High Pressure Valve Co., Ltd.;
- Operating Subsidiaries are references to Zhengdie Valve and High Pressure Valve;
- RMB are references to Renminbi, the legal currency of China;
- Taizhou Taide Valve are references to Taizhou Taide Valve Co., Ltd.; Taizhou Taide are references to Taizhou Taide Valve Co., Ltd.;
- The Casting Company are references to Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company;
- Yangzhou Rock are references to Yangzhou Rock Valve Lock Technology Co., Ltd.; and
- Zhengdie Valve are references to Zhengzhou City Zhengdie Valve Co., Ltd.;

### Forward-Looking Statements

*This report contains information that may constitute forward-looking statements. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, "Item 1A. Risk Factors" and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission.*

## PART I

### Item 1 . Business Overview

China Valves Technology, Inc. is a Nevada holding company which conducts its operations through China-based operating subsidiaries. We are primarily engaged in the business of developing, manufacturing and selling high-quality metal valves. We manufacture and sell over 800 models with more than 10,000 specifications of low, medium and high-pressure valves according to differing standards and specifications, in a variety of diameters ranging from 3mm to 1,300mm and with pressure caps that range from 150lbs to 4,500lbs. Our mix of valve products can be used in temperatures ranging from -196 degrees Celsius to 610 degrees Celsius. We sell our products to customers in the electricity, petroleum, chemical, water, gas, nuclear power station and metal industries throughout China.

Our sales revenue and net income were \$95.4 million and \$23.4 million respectively, during the year ended December 31, 2009, and net income of \$66.6 million and net loss of \$4.2 million, respectively, during the same period in 2008. Our net income for the year ended December 31, 2009 and 2008 includes a non-cash charge for stock compensation expense of \$0.47 million and \$15.0 million respectively.

Our head office is located in Zhengzhou, Henan Province, PRC. Our three Chinese operating subsidiaries are Zhengdie Valve, Kaifeng High Pressure Valve and Taizhou Taide Valve.

### Our Organizational Structure

The following chart reflects our organizational structure for our active subsidiaries as of the date of this Annual Report.

### **Our Corporate History**

We were originally incorporated on August 1, 1997 in the State of Nevada. We focus primarily on the development, manufacture and sale of high-quality metal valves for the electricity, petroleum, chemical, water, gas and metal industries in the People's Republic of China ( PRC ). We are headquartered in Kaifeng and Zhengzhou, Henan Province, PRC.

## Our Corporate Restructuring

Our name has changed several times over the years. On December 18, 2007, we amended our articles of incorporation to change our name to China Valves Technology, Inc. We had no active business operations from 2001 until December 18, 2007, when we completed a share exchange transaction with China Valve Samoa, a company incorporated under the laws of Samoa, and its sole shareholder Mr. Siping Fang.

Initially, the Company held 100% direct ownership in Chinas Valve Samoa. China Valves Samoa was incorporated on June 6, 2007 in Samoa and its principal activity was its investment in all of the outstanding capital stock of China Valves Holding Limited, a corporation incorporated under the laws of Hong Kong ( China Valves Hong Kong ). China Valve Hong Kong, in turn, was the owner of all of the outstanding equity interests in Henan Tonghai Valves Technology Co., Ltd., ( Henan Tonghai Valve ), a corporation incorporated under the laws of the PRC which in turn owned all of the outstanding equity interests in three entities namely, Henan Kaifeng High Pressure Valve Co., Ltd., ( High Pressure Valve ) and Zhengzhou City Zhengdie Valves Co., Ltd., ( Zhengdie Valve ), and Taizhou Wote Valves Co. Ltd., all corporations incorporated under the laws of the PRC.

Following our acquisition of China Valves Samoa (and indirectly, the Operating Subsidiaries) and in anticipation of our August 2008 private placement transaction, we developed a group reorganization plan to ensure that the manner in which we acquired our Operating Subsidiaries complied with PRC merger and acquisition ( M&A ) related regulations. The group reorganization plan involved modifying our acquisition of our Operating Subsidiaries previously acquired as a result of our acquisition of China Valves Samoa and the concurrent re-acquisition of the Operating Subsidiaries through newly established entities incorporated by Bin Li (a Canadian citizen then unaffiliated with the Company, but who is the cousin of our Chairman Siping Fang) which entities were then transferred to the Company.

These M&A regulations were promulgated on August 8, 2006 by six Chinese regulatory agencies (including the PRC Ministry of Commerce ( MOFCOM ) and the China Securities Regulatory Commission ( CSRC ). The jointly issued M&A regulations, known as Circular 10, were captioned Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and they became effective on September 8, 2006. Under Circular 10, an offshore special purpose vehicle ( SPV ) formed for purposes of overseas listing of equity interests in China-based companies and controlled directly or indirectly by Chinese companies or individuals must obtain the approval of the CSRC prior to the listing of such SPV s securities on an overseas stock exchange. Circular 10 also requires approval from MOFCOM for round-trip investment transactions in which a China-based company or a PRC resident, or Acquirer, using an offshore entity controlled by the Acquirer, acquires any PRC local company that is an affiliate of the Acquirer. The group reorganization plan described below was designed in consultation with our PRC legal advisors to ensure that the acquisition of the Operating Subsidiaries was completed in a manner that did not need us to obtain CSRC or MOFCOM approvals.

Pursuant to a group reorganization plan, on April 1 and 3, 2008, the Company transferred 100% of the equity of the Operating Subsidiaries back to Mr. Fang and the other original owners, with the intention that Mr. Fang would thereafter transfer the Operating Subsidiaries to a new entity incorporated by Mr. Bin Li, and that Mr. Li would then sell such entity to the Company for nominal consideration, thereby allowing the Company to reacquire legal ownership of the Operating Subsidiaries, in a manner that did not need us to obtain CSRC or MOFCOM approvals.

On April 10, 2008, Mr. Fang sold 12,150,000 shares of the Company s common stock beneficially owned by him (the "Shares") and which he had received in the exchange transaction involving China Valves Samoa described above, to Mr. Li for HKD \$10,000. In connection with his acquisition of the Shares, Mr. Li issued to Mr. Fang a HKD \$10,000 note. The note, which does not bear interest, is due sixty days after a written demand for payment is made by Mr. Fang to Mr. Li, provided that such demand is made on or after October 15, 2008. The sale represented a change of control of the Company and the Shares acquired by Mr. Li represented approximately 60.75% of the then issued and outstanding capital stock of the Company calculated on a fully-diluted basis. Prior to the transaction, Mr. Li was not affiliated with the Company. Following the acquisition, Mr. Li is deemed an affiliate of the Company as a result of his



stock ownership interest in the Company. In connection with Mr. Li's acquisition of the Shares from Mr. Fang, Mr. Fang and Mr. Li entered into an Earn-In Agreement (the "Earn-In Agreement"), pursuant to which Mr. Fang obtained the right and option to re-acquire the Shares from Mr. Li, subject to the satisfaction of four conditions, as follows, (A) 6,075,000 of the Shares, upon the later occurrence of either (i) the date that is six months after April 10, 2008 or (ii) the date upon which Mr. Fang and Henan Tonghai Valve enter into a binding employment agreement for a term of not less than five years for Mr. Fang to serve as Henan Tonghai Valve's chief executive officer and chairman of its board of directors; (B) 2,025,000 of the Shares upon the declaration of effectiveness of a registration statement filed by the Company under the Securities Act of 1933, as amended; (C) 2,025,000 of the Shares when Henan Tonghai Valve and its subsidiaries achieve after-tax net income of not less than \$3,000,000, as determined under United States Generally Accepted Accounting Principles ("GAAP") consistently applied for the six-month period ended June 30, 2008; and (D) 2,025,000 of the Shares when Henan Tonghai Valve achieves not less than \$7,232,500 in pre tax profits, as determined under GAAP for the fiscal year ended December 31, 2008. These conditions would be able to be satisfied only if the Company reacquired and operates the Operating Subsidiaries. The purpose of the Earn-In Agreement is to ensure that the manner in which Mr. Fang obtains his ownership interest in the Company complies with PRC regulations. At the time of the Agreement, it was fully expected that the conditions under which the Shares would be returned to Mr. Fang would be able to be met. At the time of this Annual Report, conditions (B), (C) and (D) have been satisfied. When all the conditions have been satisfied, Mr. Fang will be able to regain ownership of all the shares in the Company that he originally acquired when he transferred to the Company his interest in the Operating Subsidiaries, subject to their release from the Escrow Agreement described below. The Earn-In Agreement will simply enable Mr. Fang to regain ownership of the Company's shares originally transferred by him to Mr. Li as part of the reorganization arrangements and, accordingly, the Company does not believe his re-acquisition of those shares from Mr. Li represents compensation cost to the Company, as the Company had previously issued those shares to him in exchange for his interest in the Operating Subsidiaries.

In connection with the Company's private placement on August 26, 2008, the Company entered into a make good escrow agreement, under which the 12,583,032 shares of the Company's common stock held by Bin Li, the Company's major shareholder, were placed in escrow. Of these shares, 12,150,000 are the subject of the Earn-In Agreement between Bin Li and Siping Fang as described above and Bin Li entered into the Make Good Escrow Agreement on behalf of Siping Fang. For each of the calendar years 2008, 2009 and 2010, 4,194,344 shares will be released to the investors or returned to Bin Li, depending on the fulfillment of specified earnings targets. The specified earnings target for calendar 2008 is net income of \$10,500,000, for calendar 2009 the target is net income of \$23,000,000 and fully diluted earnings per share of \$0.369 and for calendar 2010 the target is net income of \$31,000,000 and fully diluted earnings per share of \$0.497. On August 14, 2009, the parties to the Make Good Escrow Agreement entered into an amendment pursuant to which for calendar 2009 the target was amended to \$21,000,000 and fully diluted earnings per share of \$0.541 and for calendar 2010 the target was amended to net income of \$34,000,000 and fully diluted earnings per share of \$1.082.

In 2008, the Company recorded \$15.0 million expenses for the release of the escrow shares as the escrow shares were originally thought to be compensatory based on the then effective accounting standards. However, in January 2010, FASB issued ASU No. 2010-05 Escrowed Share Arrangements and the Presumption of Compensation. This update codifies EITF Topic D-110, which clarifies overcoming the presumption that for certain shareholders these arrangements represent compensation. Historically, an escrowed share arrangement involving the release of shares to certain shareholders based on performance-related criteria is presumed to be compensatory. When evaluating whether the presumption of compensation has been overcome, substance of the arrangement should be considered, including whether the arrangement was entered into for purposes unrelated to, and not contingent upon, continued employment. If specific facts and circumstances indicate that the arrangement, such as investors request that specific significant shareholders participate in an escrowed share arrangement, which will be released or canceled without regard to continued employment, is in substance an inducement made to facilitate the transaction on behalf of the company, rather than as compensatory, the arrangement should be recognized and measured according to its nature and reflected as a reduction of the proceeds allocated to the newly-issued securities. The Company's CEO, Siping Fang, escrowed shares, in connection with the 2008 Make Good Escrow agreement, are placed in escrow at request of the investors and without regard to continued employment. Based on the clarification from the ASU, the release of the escrowed shares to SiPing Fang as result of the Company meeting the make good annual income target should not be recorded as compensation expense. Hence, the Company did not record compensation expense for Mr. Fang for the year ended December 31, 2009 as it did in 2008.

Pursuant to the group reorganization plan, Mr. Li established China Fluid Equipment on April 18, 2008, to serve as the 100% owner of a new PRC subsidiary, Henan Tonghai Fluid. On June 30, 2008, Henan Tonghai Fluid acquired the Operating Subsidiaries from Mr. Fang and the other original owners. The acquisitions were consummated under the laws of the PRC. The former Hong Kong holding company, China Valve Hong Kong and its subsidiary Henan Tonghai Valve, which no longer held any assets, are dissolved.

On July 31, 2008, the Company and Mr. Li completed the reorganization plan when Mr. Li transferred all of the capital stock of China Fluid Equipment to the Company pursuant to an Instrument of Transfer for a nominal consideration of HKD\$10,000 (approximately \$1,281). As a result of these transactions, the Operating Subsidiaries are again the Company's indirect wholly-owned subsidiaries.

As part of these reorganization transactions, no significant amounts were paid to or received from Mr. Fang or Mr. Li. Mr. Li was not at risk during these transactions and no new capital was introduced. As a result, no new basis in the net assets of the Operating Subsidiaries was established. During this reorganization, Mr. Fang continued to serve as Chairman and Chief Executive of the Company and, together with other management of the Company, continued to direct both the day-to-day operating and management of the Operating Subsidiaries, as well as their strategic direction. Because of this operating and management control and because the reorganization plan effectively resulted in the Company continuing to bear the residual risks and rewards related to the Operating Subsidiaries, the Company continued to consolidate the Operating Subsidiaries during the reorganization.

On December 30, 2008, we established Taizhou Taide Valve Co., Ltd, a new Chinese subsidiary of China Fluid Equipment and a wholly-owned foreign enterprise. On April 17, 2009, Taizhou Taide completed the acquisition of Taizhou Taide Valve Co., Ltd for a total cash consideration of \$3 million pursuant to an Asset Purchase Agreement. As such, Taizhou Taide became an operating company.

On July 24, 2009, the Company amended its articles of incorporation with the State of Nevada to effect a one-for-two reverse stock split (the Reverse Split ). The Reverse Split affects all issued and outstanding shares of the Company's common stock immediately prior to the effectiveness of the Reverse Split with any fractional shares rounded up to the next highest whole share. The Reverse Split took effect on August 13, 2009. All share and per share amounts used in this Form 10-K including the Company's consolidated financial statements and notes have been retroactively restated to reflect the Reverse Split.

## **Our Industry**

The valve industry in China is large and growing as a result of growth in urbanization and heavy industrialization throughout all of China. Our industry is usually categorized into the following five major segments depending on the end user of the particular valve products: (1) water supply; (2) power; (3) petrochemical and oil ; (4) metallurgy ; and (5) others. The water segment and the power segment rank as the largest segments accounting for 30.0 % and 29.6 %, respectively, followed by the petrochemical and oil and other segments with 17.2 %, and 17.0 %, market share, respectively. Metallurgy accounts for the remaining 6.5 % market share.

The Chinese valve market is expected to increase at an annual rate of more than 30% for the next few years according to the China Valve Industry Association's research in 2009. We believe that demand for valves will be driven primarily by the energy and water treatment segments with operations and projects in urban centers. The stimulus package being implemented by the Chinese government in response to the global economic crisis is expected to emphasize basic infrastructure construction projects for water, electricity, gas and heat in order to ensure continuous economic development and meet the requirement of improving people's living standard. We believe that these initiatives should generate strong demand for valves and promising business prospects for the valve industry and our company, especially as China's valve market keeps growing and developing. We intend to focus our efforts on utilizing our tangible and intangible resources to expand and strengthen our products and increase our market share in response to industry demands.

As a supplier to customers in a variety of industries, our performance is largely dependent upon the overall economic conditions and the growth and performance of industries and companies operating in those industries which purchase our valve products. The following provides a brief overview of the historical and projected performance and growth of the four largest industries in which our customers operate.

## **Our Involvement in the Power Industry**

### ***Thermal power***

The power industry has experienced rapid growth in recent years in the PRC, aided particularly by economic reforms by the Chinese government and the opening of the Chinese market to the outside world. In 2009, total power generating installed capacity achieved 900 million KW and generated electricity volume of 398 million KWh, both of which were the highest in the world. Although overall installed capacity is relatively sufficient, the thermal power industry is operating in a suboptimal manner. Less efficient, small thermal power generating units account for approximately 74% of total production capacity as compared to above-300 KW units which account for only 26% of total output. Compared with technology used in developed countries, technology used in the PRC is far behind. Equipment is outdated and the majority of thermal power units utilize a sub-critical pressure design, not the more efficient super-critical pressure units. These sub-critical pressure units create an additional layer of complexity because they have high coal consumption, low efficiency and high pollution output, which lead to environmental and energy-saving problems.

One of the major initiatives of the thermal power industry has been to improve and optimize thermal power units, in which our valves serve as important components. These high-temperature, high-pressure and high-parameter thermal power generating units have high-thermal efficiency, good economic results and low pollution, which is good for environmental protection and energy saving. 600 MW thermal power generating units have had the lowest demand in China and there has been a trend toward 1,000 MW supercritical pressure units and these units are expected to become more prevalent in the future. Among the total thermal power capacity, the stand-alone capacity of 300,000 kilowatts and above counts over 60% in the end of 2009. In the long run, with increasing electricity demand, lowering power generation costs, environmental friendly technology and other positive factors, the power industry's future prospects are more optimistic. High Pressure Valve is the sole company that would have the capacity to manufacture valves used for ultra-critical thermal power generating units. We expect to have an extensive market share in the

super-critical pressure unit market.

*Nuclear power*

There are about 500 nuclear power generating units in the world, 20 of which have been built in China with total installed capacity of 8.7 million KW. Presently, six nuclear power generating units having a capacity of over a million KW are planned to be built at the Sanmen nuclear power station and four nuclear power generating units are planned at the Tianwan nuclear power station. Based on the Chinese state energy plan, by 2020 approximately 60 nuclear power generating units are proposed to be established in Lingdong, Shenzhen, Yangjiang, Taishan, Peiling, Chongqing and Dalian.

Demand for valves used in the nuclear power industry is higher than demand in the thermal power industry for power stations having similar capacity. A nuclear power station with two sets of one million KW nuclear power generating units typically requires approximately 30,000 units of valves. Based on an increase of 2.5 million KW of nuclear power generating units per year, we estimate that the average annual demand for valves used in the nuclear power industry will reach 38,000 units. According to target power generation increases set forth in the eleventh five-year plan of the Chinese government (2006-2010), we believe the demand for valves in the nuclear power industry will reach RMB 3 billion by 2010, with an average annual amount of RMB 0.6 billion from 2006 to 2010 .At present, China has been ushered in the rapid development of nuclear power projects. China's national development and reform commission aims that by 2020 the total installed capacity of nuclear power to be 9 billion kwh. We believe the demand of valves in this industry will generate great opportunities for our company.. In addition, we also believe that the market for repairs of valves is approximately RMB 150 million per year. We expect that our company will be well positioned to capitalize on the growth of the nuclear power industry.

## **Our Involvement in the Petrochemical and Oil Industries**

During the period of the eleventh five-year plan (2006-2010), the focus of the large-scale ethane and fertilizer industry is on developing 80-100 mil-mt/year sizable projects, including build-out and transformation of existing 40-45 mil-mt/year equipment and building new large-scale ethane equipment. During this period, the large-scale ethane equipment of 40-45 mil-mt/year in Daqing, Jilin and Maoming will be transformed into equipment of 80 mil-mt/year. Additionally, large-scale ethane equipment projects of 80 mil-mt/year in Tianjin and 100 mil-mt/year in Zhenhai are expected to be implemented. It is anticipated that several sets of new large-scale 80 mil-mt/year ethane equipment projects will be built by joint investment and joint venture. We believe that the market for large-scale ethane key equipments, such as special valves and high-temperature valves for ethane fission gas, which are currently still imported into the PRC, will increase within the PRC. It is anticipated that by 2010, the newly established large-scale gas pipeline would reach a capacity of above 20,000 km and the demand for large caliber high-pressure gas pipeline ball valves will be approximately 20,000 units. The segment of the Sino-Russian oil pipeline that is located in China requires 300 units of electromotion DN caliber pipeline valves. During the eleventh five-year plan period, crude high-pressure oil pipelines of 5,000 km are planned to be built, which we believe will require approximately 3,000 units of high-pressure DN caliber pipeline valves. Additionally, the PRC is expected to develop the LNG station, which should generate large demand for various types of low-temperature valves. The majority of high-standard special valves involved in large-scale gas projects are from imports. It is necessary for us to strengthen research and development of high-temperature, high-pressure and grind-resistant valves in order to meet demands for development of the coal liquification industry.

## **Our Involvement in the Water Industry**

American Watts Water Technologies Group, a leading manufacturer of equipment for water treatment internationally, anticipates that the total annual demand for valves in China to be used in the water supply industry will be RMB 10 billion. We believe that the budgeted amount for valves for the 70 km segment of the north-south water transfer project in Beijing from suburban Beijing to downtown Beijing alone is more than RMB10 million. In addition, this hydroelectric power supply project will create both near term and long term demand for valve products. Major infrastructure projects between western and eastern regions of China, the transformation of the old industry base, construction of downtown pipe networks in major cities, residential buildings, and wastewater treatment and water conservancy should also generate tremendous demand for valves. Furthermore, the Chinese government recently provided what the next Five Year Plan will look like in terms of water infrastructure investment, disclosing that approximately \$15 billion is expected to be spent over the next three years on drinking water treatment. Much of this will be used toward water distribution networks and long-distance water pipelines, which requires valves such as those produced by the company.

## **Our Competitive Strengths**

- ***Broad range of products and leading brands.*** We believe that we have the most comprehensive range of valve products in our industry and enjoy leading market positions based on the estimated market share of our key products, broad brand recognition and a strong reputation for quality and service within the markets we serve.
- ***Low-cost and high quality manufacturing capabilities.*** We have daily production capacity for 23 tons of high quality valves and 15 tons of high pressure and high temperature valves. We believe our historical capital investment in manufacturing technologies helps us reduce the costs of producing our products. We focus on manufacturing and selling high quality valves at competitive prices. We believe we have a price advantage over most of our competitors.
- ***Highly experienced and incentivized research and development team.*** We have a R&D department composed of 129 engineers with many years of experience. We are committed to developing new products and we have in recent months generally launched a new model every two months. We have cooperated with universities and institutions to improve and develop products.

- **Highly experienced, proven management team.** We are led by an experienced management team with a long and successful track record, enabling us to recognize and capitalize upon attractive opportunities in our key markets. Our 15 most senior members of the management team have an average of over 18 years of experience in the valve industry and have substantial experience in acquisition and integration of businesses, cost management rationalization and efficient manufacturing processes. The management team is led by Siping Fang, our Chairman, President and Chief Executive Officer, who has over 20 years of experience in the valve industry.

## **Our Strategy**

Our objective is to increase profitability, cash flow and revenue while developing and enhancing our position as the leading valve manufacturer in China. Our strategy for achieving these objectives includes the following key elements:

**Pursue Strategic Acquisitions.** China's valve market is very fragmented. According to the China Valve Industry Association's statistics, there are more than 4,000 valve manufacturers in the market. The top 10 valve manufacturers in China only have an aggregate Chinese market share of 12.1%. We anticipate that the fragmented nature of the Chinese valve market will continue to provide opportunities for growth through strategic acquisitions. Our acquisition strategy will continue to focus on entities with products that provide opportunities for us to expand and products that can be marketed through our existing distribution channels or provide us with new distribution channels for our existing products, thereby increasing marketing and distribution efficiency. Furthermore, we seek acquisition candidates that demonstrate a combination of good profit margins, strong cash flow, leading positions in the local markets and products that generate recurring revenue. We will use our brand advantage to consolidate China's valve market and to increase our market share.

**Further Penetrate Existing Market Segments.** We intend to seek to further penetrate existing market segments to drive sustainable growth by strengthening our existing customer relationships and attracting new customers. We intend to further penetrate existing customers by continuing to:

- provide quality products;
- fulfill logistical requirements and volume demands efficiently and consistently;
- provide comprehensive product support from design to after-market customer service;
- cross-sell our brands across various business segments to our customers;
- leverage strong established distribution channels.

**Enter New Market Segments.** To drive organic growth from our existing businesses, we intend to continue to leverage our customer relationships to develop or acquire new products and product extensions to enter into new market segments. For example, in 2007 we successfully entered into the nuclear power station valves market by signing agreements with two large nuclear power stations. In addition, we intend to increase our market share in the nuclear power market by increasing our investment in research and development, obtaining production licenses and establishing a sales team specifically focused on the nuclear power industry. In the oil and chemical industry, there has been increased construction of long-range pipelines for the transmission of oil and gas. This increase should result in increased demand for ball valves and flat valves. We have completed the design of these valves and have added equipment to our existing facilities to enhance production.. In June 2009, the Company received purchase orders for nuclear forged steel valves from China Guangdong Nuclear Power Group ("CGNPG") valued at \$4.7 million. The Company expects to receive more orders in nuclear valves in 2010.

**High End Product Focus.** We will keep focusing on high end, more sophisticated valve products, including high-parameter and special usage valves. The majority of valve companies in China focus only on low end products at lower prices. Because of our technology and R&D strength, we will continue focusing on high end valve products and pursuing higher margins than the industry average. Additionally, we intend to cooperate with the electricity power design colleges and solicit support from industry associations.

**Increase in International Sales.** We plan to increase our focus on sales into international markets. In the short term, we plan to focus on neighboring developing countries and in the long term, we expect to focus on the United States and Europe.

## **Our Products**

China Valves produces and sells over 800 models of valves and more than 10,000 standards of valves in categories such as low, medium and high-pressure valves. Our valve products come in varying diameters from 3mm to 1300mm, with pressure caps that range from 150lbs to 4,500lbs and are operative in temperatures ranging from -196 degrees Celsius to 610 degrees Celsius. Our main product categories consist of:

- High pressure and high temperature valves for power station units;
- Valves for long distance petroleum pipelines;
- Special valves for chemical lines;
- Large valves for water supply pipe networks;
- Valves for sewage; and
- Valves for long distance gas pipelines

Our main product types are:

- Gate valves
- Globe valves
- Check valves



- Throttle valves
- Butterfly valves
- Ball valves
- Safety valves
- Water pressure test valves
- Vacuum valves; and
- Extraction check valves

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## **Our Manufacturing Process**

Our manufacturing process is a multi-step process involving the following tasks:

- purchasing and depositing of raw materials,
- raw material processing and analysis,
- production of inventory of semi-finished products (or transporting to the next step directly)
- product assembly,
- product inspection and testing, and placing finished products in inventory.

Our modern computer aided design ( CAD ) center can assist in the design of all products. We closely monitor and test the quality of raw materials, including casting steel blank parts, forging steel blank parts and steel. We use a high-speed direct reading spectrograph (32 channels) for the analysis of the chemical components of raw materials. We have cobalt 60y flaw detectors, high-power magnetic particle flaw detectors and ultrasonic flaw detectors, non-destructive equipment that helps to ensure the internal quality of forging blank parts. We have a metal material test room for physical and chemical analysis and mechanical testing of raw materials. In order to ensure production structural capability, we utilize high-precision equipment, including high-precision computer numerical control ( CNC ) lathes and advanced welding equipment to satisfy the requirements of our product designs. We have modern product-processing workshops mainly with CNC lathes and approximately 20 units of large-scale high-precision equipment, including 4 m CNC vertical lathes, CNC horizontal lathes and CNC boring and milling machines. In addition, we have pressure equipment to conduct pressure testing for finished products in accordance with appropriate standards.

We have set up a comprehensive and reliable quality management system with strict material manufacturing procedures and standard inspection. In addition, we obtained an American Petroleum Institute ( API ) quality certificate in January of 1994, a Norway Det Norske Veritas ( DNV ) ISO9001 in May of 1996, an European Union CE in 2004 and a China special equipment manufacturing certificate in 2005. The CE marking (also known as a CE mark) is a mandatory conformity mark on many products sold in the single market in the European Economic Area (EEA). By affixing the CE marking, the manufacturer or person placing the product on the market or putting it into service asserts that the item meets all the essential requirements of the relevant European Directive(s).

We have been adhering to a lean production principle. By continuously seeking to improve production, we eliminate non-value added activities, such as reducing the waiting time among each manufacturing process, building up design standard code to reduce the cycle and improve the time of products delivery to our customers. Order-based productions reduce inventory and improve cash flow. In addition, workplace monitoring and certain rules to follow improve the manufacturing efficiency. Because of increasing efficiencies in our production cycle, we have quicker feedback from our customers about our products allowing us to make improvements for their next order.

## **Warranties**

We typically warranty all of our products and provide replacement or credit to our customers who are not satisfied with our products for a period of one year from the date of shipment. When we receive an indication that a product did not perform as expected, our quality control specialists and laboratory personnel test the product to determine if our process was correct for the specifications submitted by the customer and if the manufacturing process was completed as planned. If we failed to produce the product according to the customer's specifications or if the manufacturing process was flawed, we provide immediate credit to the customer. If we produced the product to the customer's specifications and if the manufacturing process was not flawed, we send a team to the customer's facilities to see if we can assist the customer in correcting its process. Typically a team consists of at least one engineer, at least one experienced production person and the customer's sales representative. If the product was manufactured to the proper specifications, our team works with the customer in developing corrective action to solve its problem.

We have not established reserve funds for potential customer claims because, historically, we have not experienced significant customer complaints about our products and none of our customers have requested damages for any loss incurred due to product quality problems. We believe that our customer support teams, our quality assurance and manufacturing monitoring procedures will continue to keep claims at a level that does not support a need for a reserve. We review customer returns on a monthly basis and may establish a reserve as we expand our business by volume and products. If we were to experience a significant increase in warranty claims, our financial results could be adversely affected. See Risk Factors - Risks Related to Our Business - We do not maintain a reserve for warranty or defective products claims. Our costs could substantially increase if we experience a significant number of warranty claims.

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## Suppliers of Our Raw Material

The primary raw materials that are used in the production of these valves include carbon steel, stainless steel, low temperature steel and heat resistant steel, casting blank parts and actuating devices. The prices for such materials fluctuate depending upon market conditions. However, because we have long-term suppliers and clients, the influence of price fluctuations are not currently material to the Company.

We have established long-term relationships with key suppliers. However, we do not exclusively rely on our key suppliers. We have adopted a dual supplier system for raw materials. Therefore, if our primary suppliers cannot supply us with our raw material for any reason, we are able to seamlessly acquire raw material from another supplier. All of our suppliers must meet our quality standards and delivery requirements consistently in order to remain on our approved supplier list. If deliveries are delayed repeatedly, we terminate the partnership with such supplier.

These flexible sourcing arrangements are designed to ensure the stable supply of raw material and promote healthy competition among our suppliers. We believe our supplier arrangements encourage our suppliers to provide advanced technology and high quality products.

## Top 10 Suppliers in 2009

Rank	Company Name	Purchasing amount in 2009 - \$	Location	Material	% of total purchasing amount
1	Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company	4,401,499	Kaifeng, Henan	Casting	10%
2	Henan Zhongyue Valve Manufacturing Co., Ltd.	1,477,357	Zhengzhou, Henan	Valve	3%
3	Zhengzhou Hengyuan Industry Co.,Ltd.	812,987	Zhengzhou Henan	Valve	2%
4	Zhengzhou Hongyun Casting Material Co., Ltd	723,213	Zhengzhou Henan	Casting	2%
5	Yongjia Astai Valve Co., Ltd.	641,882	Yongjia Zhejiang	Valve	1%
6	Kaifeng Petrochemical Valve Factory	634,801	Kaifeng Henan	Casting	1%
7	Zhengzhou High Pressure Valve	633,767	Zhengzhou Henan	Casting	1%
8	Xingyang linshui Valve Factory	604,174	Zhengzhou Henan	Valve	1%
9	Henan SidaXianlong Industry Co., Ltd.	589,451	Xinxiang Henan	Casting	1%
10	Kaifeng Valve factory	563,927	Kaifeng Henan	Casting	1%

## Our Major Customers

Our major customers are large-scale equipment enterprises in electricity, chemical, oil and water supply industries in China. Most of our customers are state-owned entities with good reputations. The number of our clients exceeds 400. We focus on maintaining long-term relationships with our customers. We have enjoyed recurring orders from most of our customers for periods of 5 to 30 years. Our typical contract has a one-year term and is usually renewable. As we continue to build sales in the domestic market, we also plan to grow by developing sales overseas.

The following table shows the revenues generated and percentage of total revenues received from our ten largest customers during the years ended December 31, 2009.

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**Top 10 Clients in 2009**

Rank	Clients Name	Sales in 2009 \$	% of Total Sales in 2009
1	Beijing Lanaidi Technology Co., Ltd.	3,566,249	4%
2	Sichuan Dongfang Electric Group	2,404,214	3%
3	Shanghai Electric Power Equipment Co., Ltd.	1,484,420	2%
4	Kunshan City Water GroupCo., Ltd.	1,463,539	1%
5	Shanghai Pudong Water Supply and Drainage Construction Co., Ltd	1,374,640	1%
6	Norway AVM.	1,367,473	1%
7	Guangzhou City Water Company	1,357,908	1%
8	Tianjin Huaze Water Supply Engineering and Technology Development Co.,	1,311,016	1%
9	Shanghai Lingang Drainage Development Co., Ltd.	1,270,336	1%
10	Shanghai Water Supply Pipe Engineering Corp, Material & Equipment Supply	1,188,276	1%

**Sales, Marketing and Distribution**

We market our products through regional agents. We provide periodic training to our sales staff. Because we have direct communication with clients and participate in trade exhibitions, our sales staff has produced successful results. As a major supplier of valve products in China, we believe we have established a good reputation in our industry.

We market our products through various ways. We have total around \$95,370,012 sales in our three facilities and in several regional offices. In addition, we have around 50 distributors across China. We provide periodic training to our sales staff and have direct communication and participate in trade exhibitions. In 2009, we set up a sales division focusing on the nuclear market sector. We hired experienced sales personnel who have expertise in the specification requirements of nuclear power plants. Moreover, a professional technical support team was set up to enhance after-market service. We are in the process of applying this same sector focused sales effort in other key industries such as petrochemical, oil and water sectors.

**Our Research and Development Efforts**

China Valves business is dependent on constantly improving the technology associated with developing and manufacturing valves. Therefore, China Valves has committed itself to research and development of new valves and developing state of the art valves that improve and advance the valve industry. Over the past few years, China Valves has invested more than 5% of its total revenue in research and development. Specifically, in fiscal years 2009 and 2008 we invested a total of \$126,750 and \$217,698, respectively to research and development efforts, respectively. We also intend to increase the amount of resources we allocate to research and development as the Company continues to grow.

The company has 284 engineering and support technicians and researchers dedicated to actively researching and developing new valves and participating in valve production and improvement. China Valves operates a research and development laboratory with Lanzhou Science and Engineering University (the only university in China that offers a major in valve development and manufacturing). It has also partnered with Hefei General Mechanical Study Department Valves Study institute to work to improve the development, manufacture and quality of valves produced in China. In addition, we focus on development of valves for nuclear power station.

**Competition**

The company has 284 engineering and support technicians and researchers dedicated to actively researching and developing new valves and participating in valve production and improvement. China Valves operates a research and development laboratory with Lanzhou Science and Engineering University (the only university in China that offers a major in valve development and manufacturing). It has also partnered with Hefei General Mechanical Study Department Valves Study institute to work to improve the development, manufacture and quality of valves produced in China. In addition, we have been focusing our research and development efforts on the development of valves for nuclear power stations.

The following is a list of our major competitors in the valve industry:

- Hong Cheng Machinery Co., Ltd a manufacturer of medium pressure big diameter butterfly valves for the water supply industry;
- Sufa Technology Industry, Co., Ltd a manufacturer of valves for the nuclear power industry;

There are, however, certain factors that we believe set us apart from all of our competitors, including the following:

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- We are the first manufacturer of main stream gate valves for 300MW and main water supply gate valves for 600MW power stations in China;
- We are the sole designer and manufacturer in China of valves that are used for ultra supercritical units of 1000MW power stations;
- We are the first manufacturer of high pressure large diameter oil pipeline valves in China;
- We were the first domestic manufacturer of 2,500lb high pressure gate valves for hydrogenation in chemical lines, which replace imported products;
- We were the first domestic manufacturer of high pressure large diameter gate valves for the coal chemical industry; and
- We are the sole manufacturer in China that produces all of the following: blowtorch valves, water pressure testing valves, steam controlling valves for high parameter power stations and bypass valves for high pressure heaters.

## **Intellectual Property**

We own the following three trademarks:

Our three subsidiaries High Pressure Valve, Zhengdie Valve and Taizhou Tai De own 26 patents for water supply and drainage pipes, supply and disposal pipes for water and gas, sewage disposal used for water and gas supply and drainage pipes, etc. The expiration dates for these patents range from 2010 to 2018.

We cannot give any assurance that the protection afforded our intellectual property will be adequate. It may be possible for third parties to obtain and use, without our consent, intellectual property that we own or are licensed to use. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

## **Regulation**

Because our three operating subsidiaries are located in the PRC, we are regulated by the national and local laws of the PRC.

There is no private ownership of land in China and all land ownership is held by the government of the PRC, its agencies and collectives. Land use rights can be obtained from the government for a period up to 70 years and are typically renewable. Land use rights can be transferred upon approval by the land administrative authorities of the PRC (State Land Administration Bureau) upon payment of the required land transfer fee.

We are also subject to the PRC's foreign currency regulations. The PRC government has control over Renminbi reserves through, among other things, direct regulation of the conversion of Renminbi into other foreign currencies. Although foreign currencies that are required for current account transactions can be bought freely at authorized Chinese banks, the proper procedural requirements prescribed by Chinese law must be met. At the same time, Chinese companies are also required to sell their foreign exchange earnings to authorized Chinese banks and the purchase of foreign currencies for capital account transactions still requires prior approval of the Chinese government.

We do not face any significant government regulation in connection with the production of our products. We do not require any special government permits to produce our products other than those permits that are required of all



corporations in China.

**Our Employees**

As of December 31, 2009, we had 1,067 full-time employees, as follows:

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<b>Department</b>	<b>Employees</b>
Marketing	207
Management	73
Finance and Accounting	41
Research and Development	129
Human Resources	10
Production	452
Engineering and Technical Support	155
Total	1,067

### **Our Address**

The address of China Valves' principal executive office in China is No. 93 West Xinsong Road, Kaifeng City, Henan Province, People's Republic of China 475002 and our telephone number is (86) 378-2925211. Our head office in China is 21 F Kineer Plaza, 226 Jinshui Road, Zhengzhou City, Henan Province and our telephone number is (86) 371 65673777. We maintain a website at [www.cvalve.com](http://www.cvalve.com) that contains information about us, but that information is not a part of this Annual Report.

## **Item 1A. RISK FACTORS**

### **RISKS RELATED TO OUR BUSINESS**

*Our business would be adversely affected by a downturn in government spending related to infrastructure upgrades, repairs and replacements, or by reduced demand in the power, petrochemical, oil or water supply industries.*

Our business is primarily dependent upon spending on new infrastructure projects, as well as infrastructure upgrades, repairs and replacement, in the power, petrochemical, oil and water supply industries. We are also subject to general economic conditions, the need for large-scale projects, interest rates and government incentives provided for public work projects. We believe that the Chinese stimulus plan will result in an increase in infrastructure projects and an increase in demand for our valve products. If the Chinese stimulus plan does not have its desired effect or if there are declines in the number of projects planned by government agencies, government spending cuts, general budgetary constraints, difficulty in obtaining necessary permits or the inability of government entities to issue debt, sales of our valves may not increase at desired rates. It is not unusual for projects in power, petrochemical, oil or water supply industries to be delayed and rescheduled for a number of reasons, including changes in project priorities and difficulties in complying with environmental and other government regulations. We cannot assure you that economic growth experienced by China will continue or that if it does, that state and local governments will address deferred infrastructure needs. Any significant decline in the project spending in the key industries or governmental spending on infrastructure could have a material adverse effect on our financial condition and results of operations.

*Our industry is very competitive in China.*

The domestic market for valve products is fragmented and highly competitive. We compete with over 160 medium-sized, local Chinese valve manufacturers, although we are aware of only two that have similar manufacturing capacities as our company. The number of these companies varies from time to time. While we may have greater resources than our smaller competitors, it is possible that these competitors have better access in certain local markets to customers and prospects and lower production and raw material costs. Some of our valve products compete on the basis of price and are sold in fragmented markets with low barriers to entry, allowing less expensive domestic producers to gain market share and reduce our margins.

*Our revenue will decrease if the industries in which our customers operate experience a protracted slowdown.*

Our products mainly serve as key components in projects and machines operated by our customers which are mostly in the oil, power, water supply, petrochemical, and metallurgy industries. Therefore, we are subject to the general changes in economic conditions affecting those industry segments of the economy. If the industry segments in which our customers operate do not grow or if there is a contraction in those industries, demand for our valve products will decrease. Demand for our products is typically affected by a number of overarching economic factors, including, but not limited to, interest rates, the availability and magnitude of private and governmental investment in infrastructure projects and the health of the overall global economy. If there is a decline in economic activity in China and the other markets in which we operate or a protracted slowdown in industries on which we rely for our sales, demand for our products and our revenue will likewise decrease.

***Foreign competition is intense and could have a material adverse effect on our financial condition and results of operations.***

In addition to domestic competition, we face intense competition from foreign competitors. The intensity of foreign competition is affected significantly by fluctuations in the value of the U.S. dollar against Chinese currency and by the level of import duties imposed by the Chinese government on certain products. Our major international competitors are Velan Inc., KSB Group and Tyco Flow Inc. Many of our competitors have more resources and greater brand recognition than we enjoy. While our resources may not be as great as our larger competitors, we believe our product quality and direct sales offices and distribution network are superior in China. If our competitors are able to gain greater market share or improve their sales efforts, our sales may decrease, we may be forced to lower our prices, or our marketing costs may increase, all of which could negatively impact our financial results.

***Any decline in the availability, or increase in the cost of raw materials could materially affect our earnings.***

Our valve manufacturing operations depend heavily on the availability of various raw materials and energy resources. The mix of raw materials used in the production of valves is mainly composed of casting steel blank parts, forging steel blank parts and steel, which represent 60% of all raw materials used in the production of valves. The fuel costs in our manufacturing operations, particularly heavy oil and electricity, account for over 2% of total manufacturing costs. The availability of raw materials and energy resources may decline and their prices may fluctuate greatly. We have long-term relationships with several suppliers; however, we do not have long term supply contracts and if our suppliers are unable or unwilling to provide us with raw materials on terms favorable to us, we may be unable to produce certain products. This could result in a decrease in profit and damage to our reputation in our industry. In the event our raw material and energy costs increase, we may not be able to pass these higher costs on to our customers in full or at all. Any increase in the prices for raw materials or energy resources could materially increase our costs and therefore lower our earnings.

***We depend on a group of major distributors for a significant portion of our sales; any loss of these distributors could reduce our sales and continuing consolidation of distributors could cause price pressure.***

In 2009, 70% of our sales revenue was generated from our direct sales teams throughout China and 30% was generated from our distributors. Sales through distributors was highly concentrated in a few distributors, with 60% of distributor sales coming from our ten largest distributors, and 40% from the three largest distributors. Our business relationships with most of our major distributor branches may be terminated at the option of either party upon 30 days notice.

Although our relationships with our ten largest distributors have been long-lasting, distributors in our industry have experienced significant consolidation in recent years, and we cannot assure you that our distributors will not be acquired by other distributors who buy products from our competitors. Our ability to retain these customers in the face of other competitors generally depends on a variety of factors, including the quality and price of our products and our ability to market these products effectively. We cannot assure you that, as consolidation among distributors continues, distributors will not be able to force us to lower our prices, which would have an adverse impact on our financial condition or results of operations.

***Any disruption in the supply chain of raw materials and our products could adversely impact our ability to produce and deliver products.***

As a manufacturing company, we face serious challenges in supply chain management for raw materials and delivery of our products. Supply chain fragmentation and local protectionism within China further complicates supply chain disruption risks. Local administrative bodies and physical infrastructure built to protect local interests pose transportation challenges for raw material transportation as well as product delivery. In addition, profitability and volume could be negatively impacted by limitations inherent within the supply chain, including competitive, governmental, legal, natural disasters, and other events that could impact both supply and price. Any of these occurrences could cause significant disruptions to our supply chain, manufacturing capability and distribution system that could adversely impact our ability to produce and deliver products.

***We do not maintain a reserve for warranty or defective products claims. Our costs could substantially increase if we experience a significant number of warranty claims.***

We typically warrant all of our products and provide replacement or credit to our customers who are not satisfied with our products for a period of one year from the date of shipment. We have not established a reserve for potential customer claims because, historically, we have not experienced significant customer complaints about our products and none of our customers have requested damages for any loss incurred due to product quality problems.

We believe that our customer support teams, our quality assurance and manufacturing monitoring procedures will continue to keep claims at a level that does not support a need for a reserve. However, if we were to experience a significant increase in warranty claims, our financial results could be adversely affected.

***Our rapid expansion could significantly strain our resources, management and operational infrastructure which could impair our ability to meet increased demand for our products and hurt our business results***

To accommodate our anticipated growth, we will need to expend capital resources and dedicate personnel to implement and upgrade our accounting, operational and internal management systems and enhance our record keeping and contract tracking system. Such measures will require us to dedicate additional financial resources and personnel to optimize our operational infrastructure and to recruit more personnel to train and manage our growing employee base. If we cannot successfully implement these measures efficiently and cost-effectively, we will be unable to satisfy the demand for our products, which will impair our revenue growth and hurt our overall financial performance.

China Valves manufacturing operations have been operating at close to full capacity and, accordingly, we began constructing a new manufacturing facility in Kaifeng in September 2008, which was completed in third quarter of 2009. The total budget for the project was approximately \$11.4 million, of which \$7.5 million was spent in 2008 and \$3.9 million was spent in 2009.

In 2009, we spent \$1.0 million and upgraded the facilities of our subsidiary Zhengdie Valve. We acquired Taizhou Taide for \$3.0 million and Yangzhou Rock for a total amount of \$7.26 million on January 13, 2010.

Total capital expenditures in 2009 were \$3.2 million for the purchase of equipment and \$7.2 million for the construction costs. Our total capital expenditures in 2009 were \$10.4 million.

At December 31, 2009, we had 1,067 employees including 129 technicians and researchers, 452 production workers, 207 sales personnel, 155 engineering and technical support personnel and 73 administrative personnel.. In fiscal year 2010, to support our expected revenue growth, we expect to hire an additional 130 production workers and 45 staff members in other departments excluding corporate, fiscal and accounting personnel. As we will further enhance the internal control system in fiscal year 2009, we plan to hire an additional 9 corporate, fiscal and/or accounting staff members including IT expertise. Total incremental staffing in 2009 is 46 employees.

***We must manage growth in operations to maximize our potential growth and achieve our expected revenues and any failure to manage growth will cause a disruption of our operations and impair our ability to generate revenue.***

In order to maximize potential growth in our current and potential markets, we believe that we must expand the scope of our valve manufacturing and production facilities and capabilities and continue to develop new and improved valves. This expansion will place a significant strain on our management and our operational, accounting, and information systems. We expect that we will need to continue to improve our financial controls, operating procedures and management information systems. We will also need to effectively train, motivate and manage our employees. Our failure to manage our growth could disrupt our operations and ultimately prevent us from generating the revenues we expect.

***We cannot assure you that our internal growth strategy will be successful, which may result in a negative impact on our growth, financial condition, results of operations and cash flow.***

One of our strategies is to grow internally through increasing the development of new products and improve the quality of existing products. However, many obstacles to this expansion exist, including, but not limited to, increased competition from similar businesses, our ability to improve our products and product mix to realize the benefits of our research and development efforts, international trade and tariff barriers, unexpected costs, costs associated with marketing efforts abroad and maintaining attractive foreign exchange rates. We cannot, therefore, assure you that we will be able to successfully overcome such obstacles and establish our services in any additional markets. Our inability to implement this internal growth strategy successfully may have a negative impact on our growth, future financial condition, results of operations or cash flows.

***We cannot assure you that our acquisition growth strategy will be successful, resulting in our failure to meet growth and revenue expectations.***

In addition to our internal growth strategy, we have also explored the possibility of growing through strategic acquisitions. We intend to pursue opportunities to acquire businesses in the PRC that are complementary or related in product lines and business structure to us. We may not be able to locate suitable acquisition candidates at prices that we consider appropriate or to finance acquisitions on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to negotiate successfully the terms of an acquisition, or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require debt financing or additional equity financing, resulting in leverage or dilution of ownership.

Integration of acquired business operations could disrupt our business by diverting management away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures.

We also may not be able to retain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits we anticipated when selecting our acquisition candidates. In addition, we may need to record write-downs from future impairments of intangible assets, which could reduce our future reported earnings. At times, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition. In addition to the above, acquisitions in the PRC, including state owned businesses, will be required to comply with the laws of the PRC, to the extent applicable. There can be no assurance that any given proposed acquisition will be able to comply with PRC requirements, rules and/or regulations, or that we will successfully obtain governmental approvals that are necessary to consummate such acquisitions, to the extent required. If our acquisition strategy is unsuccessful, we will not grow our operations and revenues at the rate that we anticipate.

***We may have difficulty defending our intellectual property rights from infringement, resulting in lawsuits requiring us to devote financial and management resources that would have a negative impact on our operating results.***

We regard our service marks, trademarks, trade secrets, patents and similar intellectual property as critical to our success. We rely on trademark, patent and trade secret law, as well as confidentiality and license agreements with certain of our employees, customers and others to protect our proprietary rights. We have received patent protection for certain of our products in the PRC. No assurance can be given that our patents, trademarks and licenses will not be challenged, invalidated, infringed or circumvented, or that our intellectual property rights will provide competitive advantages to us. There can be no assurance that we will be able to obtain a license from a third-party for technology that we may need to conduct our business or that such technology can be licensed at a reasonable cost.

Presently, we provide our valves mainly in the PRC. To date, no trademark or patent filings have been made other than in the PRC. To the extent that we market our services in other countries, we may have to take additional action to protect our intellectual property. The measures we take to protect our proprietary rights may be inadequate and we cannot give you any assurance that our competitors will not independently develop formulations, processes and services that are substantially equivalent or superior to our own or copy our products.

***We depend on our key management personnel and the loss of their services could adversely affect our business.***

We place substantial reliance upon the efforts and abilities of our executive officers. The loss of the services of any of our executive officers could have a material adverse effect on our business, operations, revenues or prospects. We do not maintain key man life insurance on the lives of these individuals.

***We may incur significant costs to ensure compliance with United States corporate governance and accounting requirements.***

We may incur significant costs associated with our public company reporting requirements, costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the Securities and Exchange Commission. We expect all of these applicable rules and regulations to significantly increase our legal and financial compliance costs and to make some activities more time consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

***We may not be able to meet the accelerated filing and internal control reporting requirements imposed by the Securities and Exchange Commission, resulting in a possible decline in the price of our common stock and our inability to obtain future financing.***

As directed by Section 404 of the Sarbanes-Oxley Act, the Securities and Exchange Commission adopted rules requiring each public company to include a report of management on the company's internal controls over financial reporting in its annual reports. In addition, the independent registered public accounting firm auditing a company's financial statements must also attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting as well as the operating effectiveness of the company's internal controls, however, smaller reporting companies are exempt until June 2010.

Although we continue to expend significant resources in developing the necessary documentation and testing procedures required by Section 404 of the Sarbanes-Oxley Act, there is a risk that we may not be able to comply



timely with all of the requirements imposed by this rule. In the event that we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements and our stock price and ability to obtain equity or debt financing as needed could suffer.

In addition, in the event that our independent registered public accounting firm is unable to rely on our internal controls in connection with its audit of our financial statements, and in the further event that it is unable to devise alternative procedures in order to satisfy itself as to the material accuracy of our financial statements and related disclosures, it is possible that we would be unable to file our Annual Report on Form 10-K with the Securities and Exchange Commission, which could also adversely affect the market price of our common stock and our ability to secure additional financing as needed.

***We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.***

In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies has experienced wide fluctuations that have not necessarily been related to the operations, performance, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require additional financing to continue to develop and exploit existing and new products and services related to our industries and to expand into new markets. The expansion of our products and services may, therefore, be dependent upon our ability to obtain financing through debt and equity or other means.

***Our management is unfamiliar with United States securities laws and may have to expend time and resources becoming familiar with such laws which could lead to various regulatory issues.***

We became a public company in December 2007 through the reverse acquisition with China Valves Samoa. Our management is not familiar with United States securities laws and will have to spend time and resources becoming familiar with such laws. This could be expensive and time-consuming and could lead to various regulatory issues which may adversely affect our operations.

## **RISKS RELATED TO DOING BUSINESS IN CHINA**

***Adverse changes in political and economic policies of the PRC government could impede the overall economic growth of China, which could reduce the demand for our products and damage our business.***

We conduct substantially all of our operations and generate most of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- a higher level of government involvement;
- an early stage of development of the market-oriented sector of the economy;
- a rapid growth rate;
- a higher level of control over foreign exchange; and
- the control over the allocation of resources.

As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Although these measures may benefit the overall PRC economy, they may also have a negative effect on us.

Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways.

Any adverse change in economic conditions or government policies in China could have a material adverse effect on the overall economic growth in China, which in turn could lead to a reduction in demand for our products and services and consequently have a material adverse effect on our business and prospects.

***Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.***

We conduct substantially all of our business through our operating subsidiaries in the PRC. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, all of our executive officers and all of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States.

As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

***If we are found to have failed to comply with applicable laws, we may incur additional expenditures or be subject to significant fines and penalties.***

Our operations are subject to PRC laws and regulations applicable to us. However, many PRC laws and regulations are uncertain in their scope, and the implementation of such laws and regulations in different localities could have significant differences. In certain instances, local implementation rules and/or the actual implementation are not necessarily consistent with the regulations at the national level. Although we strive to comply with all the applicable PRC laws and regulations, we cannot assure you that the relevant PRC government authorities will not later determine that we have not been in compliance with certain laws or regulations.

Our failure to comply with the applicable laws and regulations in China could subject us to administrative penalties and injunctive relief, as well as civil remedies, including fines, injunctions and recalls of our products. It is possible that changes to such laws or more rigorous enforcement of such laws or with respect to our current or past practices could have a material adverse effect on our business, operating results and financial condition. Further, additional environmental, health or safety issues relating to matters that are not currently known to management may result in unanticipated liabilities and expenditures.

***The PRC government exerts substantial influence over the manner in which we must conduct our business activities.***

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

***Restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively.***

All our sales revenue and expenses are denominated in RMB. Under PRC law, the RMB is currently convertible under the current account, which includes dividends and trade and service-related foreign exchange transactions, but not under the capital account, which includes foreign direct investment and loans. Currently, our PRC operating subsidiary may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange (SAFE) by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Because a significant amount of our future revenue will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in RMB to fund our business activities outside China that are denominated in foreign currencies.

Foreign exchange transactions by PRC operating subsidiaries under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if our PRC operating subsidiaries borrow foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance the subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce (MOFCOM) or their respective local counterparts. These limitations could affect our ability to obtain foreign exchange through debt or equity financing.

***Fluctuations in exchange rates could adversely affect our business and the value of our securities.***

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in RMB and the net proceeds from our August 2008 private placement were, and the proceeds we receive from the exercise of warrants we have issued if and when those warrants are exercised for cash will be, denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect the relative purchasing power of these proceeds, our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Although we have no current intention to pay any dividends in the foreseeable future, fluctuations in the exchange rate would also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. Although we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Currently, some of our raw materials and major equipment are imported. In the event that the U.S. dollar appreciates against the RMB, our costs will increase. If we cannot pass the resulting cost increases on to our customers, our profitability and operating results will suffer. In addition, because our sales to international customers are growing rapidly, we are increasingly subject to the risk of foreign currency depreciation.

***Future inflation in China may inhibit our ability to conduct business in China.***

In recent years, the Chinese economy has experienced periods of rapid expansion and highly fluctuating rates of inflation. During the past ten years, the rate of inflation in China has been as high as 5.9% and as low as -0.8% . These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products and our company.

***Restrictions under PRC law on our PRC subsidiaries ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to our shareholders, and otherwise fund and conduct our businesses.***

Substantially all of our revenues are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent company. PRC legal restrictions permit payments of dividend by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Each of our PRC subsidiaries is also required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of our registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends.

Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

***Under the New EIT Law, China Valves Technology Inc. and its subsidiaries China Fluid Equipment and Henan Tonghai Fluid may be classified as a resident enterprise of China. Such a classification would likely result in unfavorable tax consequences to us and our non-PRC stockholders.***

China passed a new Enterprise Income Tax Law, or the New EIT Law, and its implementing rules, both of which became effective on January 1, 2008. Under the New EIT Law, an enterprise established outside of China with de facto management bodies within China is considered a resident enterprise, meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define de facto management as substantial and overall management and control over the production and operations, personnel, accounting, and properties of the enterprise. Because the New EIT Law and its implementing rules are new, no official interpretation or application of this new resident enterprise classification is available. Therefore, it is unclear how tax authorities will determine tax residency based on the facts of each case.

Our operating subsidiaries High Pressure Valve, Zhengdie Valve and Taizhou Taide Valve are already designated as resident enterprises for PRC enterprise income tax purposes. However, if the PRC tax authorities determine that China Valves Technology Inc. and its subsidiaries China Fluid Equipment and Henan Tonghai Fluid are also resident enterprises for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on offering proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as tax-exempt income, we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares. We are actively monitoring the possibility of resident enterprise treatment for the 2008 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

If we were treated as a resident enterprise by PRC tax authorities, we would be subject to taxation in both the U.S. and China, and our PRC tax may not be credited against our U.S. tax.

***If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that CSRC approval is required in connection with the reverse acquisition, the reverse acquisition may be cancelled, or we may become subject to penalties.***

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the M&A Rule) which became effective on September 8, 2006. The M&A Rule, among other things, requires that an offshore company controlled by PRC companies or individuals that have acquired a PRC domestic company for the purpose of listing the PRC domestic company's equity interest on an overseas stock exchange must obtain the approval of the CSRC prior to the listing and trading of such offshore company's securities on an overseas stock exchange. On September 21, 2006, the CSRC, pursuant to the M&A Rule, published on its official web site procedures specifying documents and materials required to be submitted to it by offshore companies seeking CSRC approval of their overseas listings.

If the CSRC or another PRC governmental agency subsequently determines that we must obtain CSRC approval of the reverse acquisition, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China and limit our operating privileges in China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares.

***The M&A Rule establishes more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

The M&A Rule establishes additional procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the PRC Ministry of Commerce be notified in advance of any change-of-control transaction and in some situations, require approval of the PRC Ministry of Commerce when a foreign investor takes control of a Chinese domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses, although we do not have any plans to do so at this time. The M&A Rule also requires PRC Ministry of Commerce anti-trust review of any change-of-control transactions involving certain types of foreign acquirers. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the PRC Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***You may have difficulty enforcing judgments against us.***

We are a Nevada holding company and most of our assets are located outside of the United States. All of our current operations are conducted in the PRC. In addition, all of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. Courts in China may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic



principles of PRC law or national sovereignty, security or the public interest. Accordingly, it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

#### **RISKS RELATED TO THE MARKET FOR OUR STOCK**

*Although publicly traded, the trading market in our common stock has been substantially less liquid than the average trading market for a stock quoted on the Nasdaq Stock Market and this low trading volume may adversely affect the price of our common stock.*

Our common stock started trading on the Nasdaq Global Market under the symbol CVVT in November 2009. The trading volume of our common stock has been comparatively low to other companies listed on Nasdaq. Limited trading volume will subject our shares of common stock to greater price volatility and may make it difficult for you to sell your shares of common stock at a price that is attractive to you.

*The market price of our common stock is volatile, leading to the possibility of its value being depressed at a time when you want to sell your holdings.*

The market price of our common stock is volatile, and this volatility may continue. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the steel industries;
- customer demand for our products;
- investor perceptions of the steel industries in general and our company in particular;

Securities class action litigation is often instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs to us and divert our management's attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. These market fluctuations may adversely affect the price of our common stock and other interests in our company at a time when you want to sell your interest in us.

***We do not intend to pay dividends for the foreseeable future.***

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board deems relevant.

- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- sales of our common stock, including sales by our directors, officers or significant stockholders; and
- additions or departures of key personnel.

**Item 2. Properties**

There is no private ownership of land in China and all land ownership is held by the government of the PRC, its agencies and collectives. Land use rights can be obtained from the government for a period up to 70 years and are typically renewable. Land use rights can be transferred upon approval by the land administrative authorities of the PRC (State Land Administration Bureau) upon payment of the required land transfer fee.

We did not previously own the building and land we operate on. Those buildings and the land use rights were owned by the Casting Company, one of our major suppliers and the land use rights and the buildings from which High Pressure Valve operates were leased from the Casting Company. The Casting Company is located on the same piece of land. As a condition precedent to the consummation of the Securities Purchase Agreement related to the private placement of our common stock, on August 26, 2008, High Pressure Valve and the Casting Company entered into an

Agreement for the Transfer of Land Use Right and Housing Titles (the **Real Estate Transfer Agreement**) for the transfer of the land use rights for all the land and all the buildings on the land to High Pressure Valve (the **Real Estate**). As the transfer was expected to take up to ten months to complete with relevant Chinese government agencies, on August 26, 2008, High Pressure Valve and the Casting Company also entered into a Lease Agreement (the **Lease Agreement**) pursuant to which the Casting Company agreed to lease the Real Estate to High Pressure Valve until the latter acquires title to the Real Estate. In addition, High Pressure Valve and the Casting Company entered into a Leaseback Agreement (the **Leaseback Agreement**) pursuant to which High Pressure Valve agreed to lease back to the Casting Company the portion of the Real Estate and the buildings used by the Casting Company, for a period of one year starting on the date of the acquisition of title to the Real Estate by High Pressure Valve.

In connection with the Real Estate Transfer Agreement, on August 26, 2008, the Company entered into a Real Estate Share Escrow Agreement with the shareholder of the Casting Company, Mr. Bin Fang, Brean Murray, Carret & Co., LLC and Escrow, LLC (the **Real Estate Escrow Agreement**), pursuant to which the Company issued and placed in escrow, for the benefit of Mr. Fang or his designee, 2,750,000 shares of the Company's common stock in exchange for Mr. Fang's agreement to cause the Casting Company to transfer the Real Estate under the Real Estate Transfer Agreement. On March 6, 2009, the land use right for the Real Estate was transferred from the Casting Company to High Pressure Valve and the 2,750,000 shares was released to Mr. Bin Fang.

All the onsite buildings and workplaces are utilized for manufacturing, R&D and administrative purposes. In addition, there is land available on for future expansion.

The following lease expenses were incurred in 2009 and 2008 with respect to the property of High Pressure Valve and Zhengdie Valve:

Year Ended December 31, 2009

Usage	Zhengdie Valve US \$	High Pressure Valve US \$	Henan Tonghai Fluid US \$
Office	\$ 35,186	-	\$ 7,269
Production & Operation Facilities	307,881	-	-
Total Cost	\$ 343,067	-	\$ 7,269

Year Ended December 31, 2008

Usage	Zhengdie Valve US \$	High Pressure Valve US \$
Office	\$ 35,182	\$ -
Production & Operation Facilities	297,827	337,500
	-	-
Total Cost	\$ 333,009	\$ 337,500

### Item 3. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

### Item 4. (Removed and reserved).

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market for our Common Stock

Our common stock, having \$0.001 par value per share ("Common Stock"), is traded on Nasdaq Global Market under the symbol "CVVT". On July 24, 2009, the Company amended its articles of incorporation with the State of Nevada to effect a one-for-two reverse stock split (the Reverse Split). The Reverse Split affects all issued and outstanding shares of the Company's common stock immediately prior to the effectiveness of the Reverse Split with any fractional shares rounded up to the next highest whole share. The Reverse Split took effect on August 13, 2009.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock as reported by nasdaq.com and www.quotemedia.com. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.



	Closing Prices	
	High	Low
<b><i>Year Ending December 31, 2009</i></b>		
4th Quarter	\$ 9.96	\$ 7.24
3rd Quarter	\$ 9.25	\$ 1.75
2nd Quarter	\$ 3.1	\$ 1.28
1st Quarter	\$ 5.00	\$ 1.20

	Closing Prices	
	High	Low
<b><i>Year Ended December 31, 2008</i></b>		
4th Quarter	\$ 4.00	\$ 0.65
3rd Quarter	\$ 2.50	\$ 1.75
2nd Quarter	\$ 5.00	\$ 1.05
1st Quarter	\$ 5.00	\$ 2.50

**Reports to Stockholders**

We plan to furnish our stockholders with an annual report for each fiscal year ending December 31 containing financial statements audited by our independent certified public accountants. Additionally, we may, in our sole discretion, issue unaudited quarterly or other interim reports to our stockholders when we deem appropriate. We intend to maintain compliance with the periodic reporting requirements of the Exchange Act.

**Approximate Number of Holders of Our Common Stock**

On February 22, 2010, there were 1,198 stockholders of record of our common stock.

**Dividend Policy**

We have never declared dividends or paid cash dividends. Our board of directors will make any future decisions regarding dividends. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the near future.

**Item 6. Selected Financial Data**

Not required.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

The following discussion is an overview of the important factors that management focuses on in evaluating our business, financial condition and operating performance and should be read in conjunction with the financial statements included in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward looking statements as a result of any number of factors, including those set forth under the section entitled "Risk Factors" and elsewhere in this Annual Report.

**Our Business**

Through our subsidiaries and commercial and contractual relationships and arrangements with other Chinese companies, we operate companies in China that develop, manufacture and distribute high quality metal valves for a variety of different industries. We are located in Kaifeng, Henan Province and conduct business throughout China, Southeast Asia, the Middle-East and Europe. Our production facility in Kaifeng has an area of approximately 74 acres. We produce over 800 models of valves and service numerous industries, including the thermal power, water supply, municipal construction, sewage disposal, oil and chemical, metallurgy, heat power, and nuclear power industries. We are the leader in valve sales for the thermal power and water supply industries, according to the Board Chairman of the China Valves Industry Association, who is also the Chairman of our company.

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Our three production facilities have an area of approximately 81 acres in total. We produce over 800 models of valves and service numerous industries, including the thermal power, water supply, municipal construction, sewage disposal, oil and chemical, metallurgy, heat power, and nuclear power industries.

Although the United States and Europe have been most affected by the recent financial crisis, governments throughout the Asia-Pacific region have also taken steps to stabilize their markets. To offset slowing global growth, on November 5, 2008, at the State Council meeting, Premier Wen Jiabao offered a RMB4 trillion (\$586 billion) stimulus package for the next two years and announced the government would move to a proactive fiscal and a moderately relaxed monetary policy.

Pursuant to the stimulus package, the Chinese government has committed to launch more projects related to people's livelihood and infrastructure and decided to invest RMB100 billion (\$14.49 billion) in these projects, starting in the fourth quarter of 2008. (source: China Daily). The actions taken by the Chinese government should significantly increase the demand for valve products which are essential for infrastructure construction and will provide market opportunities for the Company.

In addition, although the financial crises have affected Chinese enterprises that rely on overseas markets, China Valves has not been materially affected as less than 10% of our revenue is generated from exports and the relatively strong domestic market demand has positioned us to continue to grow notwithstanding the current financial crisis.

Management believes that the recent financial crisis in the US and Europe should not have any materially negative impact on our business, and management believes we will benefit from the stimulus plan of the central government of China.

### **Principal Factors Affecting our Financial Performance**

We believe that the following factors affect our financial performance:

- *Growth of China's Urbanization and Industrialization*

According to the China Valve Industry Association's research, the annual growth rate of the valve production industry in China is expected to be 32% for the next 5 years. This growth is fueled by rapid industrialization and manufacturing industries developing in China. If this growth continues, we believe that the growth rate of the valve production industry will grow at a similar rate and that the Company will be able to sustain its growth and continue to be a leader in the valve production industry in China.

- *PRC Regulations*

China has looked favorably on the valve production industry and has loosened regulations to promote manufacturing growth in China, which ultimately benefits China Valves and similarly situated companies. For example, in June, 2007, the State Department of China issued a new policy called "Expedite the development of China's equipment manufacturing industry." In this policy, the Chinese government committed to promote the development of China's equipment manufacturing industry, which includes the valve industry, through, among other things, tax incentives, import/export support and capital support. In addition, the stimulus package offered by the Chinese government will provide market opportunities for us. As long as China continues to promote economic growth and allow manufacturing companies to grow and expand their operations, China Valves expects its operations will be positively affected by PRC regulations.

### **Recent Development**

#### **Registered Direct**



Following our \$3 million registered direct offering on December, 28, 2009, we conducted another registered direct offering of an aggregate of 2,414,113 shares of our common stock at a price of \$9.00 per share for gross proceeds of approximately \$21.7 million, to several accredited institutional investors. In addition, we issued to the investors warrants to purchase 362,116 shares of common stock, in the aggregate, at a price of \$9.00 per share, exercisable for 30 days beginning on the date of the initial issuance of the warrants. These warrants have since expired.

Combined with the closing of the Company's initial registered direct offering on December 28, 2009, the Company received aggregate gross proceeds of approximately \$24.7 million. In addition, the Company received an additional \$3.2 million gross from the exercise of warrants issued in such financing. The proceeds of the financing and the warrant exercises has or will be used for working capital and certain identified acquisitions.

### **Acquisition**

On January 13, 2010, Henan Tonghai Fluid completed the acquisition of all of the assets of Yangzhou Rock for \$7.26 million in cash. As a result of this acquisition, we owns all of the patents that were applied for by Yangzhou Rock, including a patent for a 90 degree rotating valve lock device, a patent for a key management control device and a patent for a type of mechanical valve interlock. Yangzhou Rock is a company that manufactures and distributes interlock valves, valve lock devices, magnetic lock valves, and mechanical interlock machines that are widely used by manufacturing companies in the petrochemical, chemical, natural gas, thermal power station and metallurgy industries, including SINOPEC and some of its subsidiaries.

On Feb 3, 2010, we consummated the acquisition of all of the assets of Able Delight (Changsha) Valve Co., Ltd. ("Able Delight"), a leading valve manufacturing enterprise that specializes in manufacturing valves for the water supply and power supply industries. As result of this \$15 million cash acquisition, Able Delight became a wholly-owned subsidiary of China Valves.

Able Delight, located in Changsha, Hunan Province, is a leading producer of butterfly valves, check valves and ball valves for hydropower plants, thermal power plants, nuclear power plants and water and sewage treatment applications. Able Delight produces the largest butterfly valves in China with a maximum diameter of 5.5 meters. As a result of this acquisition, Able Delight has transferred all its active patents to China Valves.

### **Strategic Partnership**

The Company has signed a strategic cooperation frame agreement with Dongfang Electric Corporation (Dongfang Electric), the largest manufacturer of power generating equipment and contractor for power station projects in the world.

In the first-ever strategic relationship between a major Chinese valve manufacturer and a leading Chinese producer of power generating equipment, the Company and Dongfang Electric have agreed to establish a joint R&D center for the development of high-end valves that Dongfang Electric currently imports, in addition to entering into a full service agreement. Under the agreement, the Company will supply Dongfang Electric with custom design services for specialty valves required in its power generation projects, manufacture the valves, and install and maintain them, providing Dongfang with a complete suite of valve-related services.

Dongfang purchased more than \$2.4million worth of valves in 2009, and this arrangement will give the Company the opportunity to provide them with a full range of valve-related services in addition to world class valves, thereby increasing our exposure to new realms of the important power generation industry.

### **Taxation**

#### ***United States***

We are subject to United States tax at a tax rate of 34%. No provision for US federal income taxes has been made as we had no taxable income in the United States for 2009 and 2010.

#### ***Hong Kong***

China Fluid Equipment was incorporated in Hong Kong and is not subject to income taxes under the current laws of Hong Kong.

#### ***PRC***

A company registered in China is subject to national and local income taxes within China at the applicable tax rate on the taxable income as reported in its PRC statutory financial statements in accordance with relevant income tax laws. Under the Provisional Taxation Regulation of the People's Republic of China effective before January 1, 2008, income tax was generally payable by enterprises at a rate of 33% of their taxable income.

In 2007, China passed the New EIT Law and its implementing rules, both of which became effective on January 1, 2008. The New EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the previous law. The New EIT Law, however, (i) reduces the statutory rate of enterprise income tax from 33% to 25%, (ii) permits companies to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria.

Substantially all of our income may be derived from dividends we receive from our PRC operating subsidiaries described above. The New EIT Law and its implementing rules generally provide that a 10% withholding tax applies to China-sourced income derived by non-resident enterprises for PRC enterprise income tax purposes. We expect that such 10% withholding tax will apply to dividends paid to us by our PRC subsidiaries but this treatment will depend on our status as a non-resident enterprise. For detailed discussion of PRC tax issues related to resident enterprise status, see Risk Factors Risks Associated with Doing Business in China Under the New EIT Law, China Valves Technology Inc. and its subsidiaries China Fluid Equipment and Henan Tonghai Fluid may be classified as a resident enterprise of China. Such a classification would likely result in unfavorable tax consequences to us and our non-PRC stockholders.

Our Operating Subsidiaries are classified as resident enterprises under the EIT law. Beginning in January 2008, both High Pressure Valve and Zhengdie Valve became subject to an income tax at an effective rate of 25% under the EIT law. The new operating company, Taide Valve is also subject to an income tax rate of 25%. The accounting impact of being classified as a resident enterprise beginning in January 2008, the effective date of the EIT law, is that we incurred income taxes of \$8.6 million for the year ended December 31, 2009, an increase of \$4.2 million or 95.5% from the taxes we incurred in the same 2008 period, which were \$4.4 million. This increase in taxes was more than offset by our higher revenues and operating profits; however, in future periods, our operating results and cash flow will continue to reflect the effect of our operating subsidiaries being subject to an income tax at an effective rate of 25%.

## Results of Operations

The following tables set forth key components of our results of operations for the periods indicated, in dollars and as a percentage of revenue.

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Sales revenue	\$ 95,370,012	\$ 66,555,056
Cost of sales	48,527,336	40,082,152
Gross profit	46,842,676	26,472,904
<b>Expenses</b>		
General & administrative expenses	7,312,439	6,335,261
Research and development costs	126,750	217,698
Selling expenses	6,317,766	4,929,728
Non-Cash Stock Compensation Expense	47,057	14,998,974
Total operating expenses	13,804,012	26,481,661
Income from operations	33,038,664	(8,757)
Change in fair value of derivative instruments	1,508,997	(100,479)
Other income/(expense), net	(510,692)	(537,767)
Interest and finance expense, net	128,518	486,946
Income before income taxes	31,911,841	142,543
Income taxes	8,558,748	4,379,388
Net (loss) income	\$ 23,353,093	\$ (4,236,845)
Foreign currency translation (loss) gain	(7,075)	2,985,232
Comprehensive Income	\$ 23,346,018	\$ (1,251,613)
<b>As a Percentage of Sales Revenue</b>		
Sales revenue	100.0 %	100.0 %
Cost of sales	50.9 %	60.2 %
Gross profit	49.1 %	39.8 %
<b>Expenses</b>		
General & administrative expenses	7.7 %	9.5 %

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Research and development costs		0.1 %	0.3 %
Selling expenses		6.6 %	7.4 %
Non-Cash Stock Compensation Expense		0 %	22.5 %
Total operating expenses		14.5 %	39.7 %
Income before income taxes	33.5 %	0.2 %	
Income taxes	9 %	6.6 %	
Net (loss) income	24.5 %	(6.4)	%

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The following tables set forth our sales by valve type, in terms of volume and revenues for the periods indicated.

	Year Ended December 31,	
	2009	2008
Sales revenue	(in thousands)	
Gate valves	\$ 26,559	\$ 18,478
Check valves	6,840	5,488
Global valves	5,073	3,058
Safety valves	1,915	859
Butterfly valves	36,998	22,841
Ball valves	5,960	3,155
Vent valves	325	1,927
Other	11,700	10,749
Total sales revenue	\$ 95,370	\$ 66,555

The China Valve Industry Association divides the valve market into five primary segments; (i) power; (ii) petrochemical and oil; (iii) other areas (iv) water supply; and (v) metallurgy. Our revenues in these markets are as follows:

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Power Supply	\$ 28,206	\$ 16,263
Petrochemical and Oil	16,250	14,808
Water Supply	28,301	19,506
Metallurgy	6,173	6,460
Other	16,440	9,518
Total sales revenue	\$ 95,370	\$ 66,555

#### Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

**Sales Revenue.** Sales revenue increased \$28.8 million, or 43.2%, to \$95.4 million in 2009 from \$66.6 million in 2008. The majority of this increase resulted from increases in average selling price as higher value added and higher-end products sold. Adjusting for the effect of changes in exchange rates, our sales revenue increased by 40.9%. The increased sales was also attributable to (1) increased demand for our products fueled by rapid industrialization and manufacturing development in China, (2) our successful marketing efforts, (3) retaining our existing customers and adding additional large customers, (4) our expansion into the nuclear power station valve market segment and (5) increased for our innovations on high temperature high pressure power station gate valves and two-way metal sealing butterfly valves because the Company has established its brand in China.

In 2009, revenues from butterfly valves, gate valves and ball valves constituted approximately 72.9% of our total revenues for the period.

Revenue from butterfly valves for 2009 amounted to \$37.0 million which is \$14.2 million or 62.0% more than revenue for the same period ended on December 31, 2008. These increases are mainly due to the fact that we are the sole manufacturer and distributor for the integrated two-way Metal Sealed Butterfly Valves used to control municipal water and sewage flow. These new generation butterfly valves have achieved 86% market share in the largest ten cities in China. The Central Government's encouragement of water supply and conservancy projects in fiscal 2009 also greatly helped sales of the Company's butterfly valves.

Revenue from gate valves for 2009 amounted to \$26.6 million which is \$8.1 million or 43.7% more than that of 2008. These increases were attributable to the large increase in power station construction projects in China. By the end of 2007, the Company had developed the capability to manufacture high quality technology intensive forged steel valves for use in ultra supercritical thermal power generators in 1,000MW power stations. The Company is the sole designer and manufacturer in China for this type of valve, which can replace the imported valves used in the thermal power industry. The newly developed, high-margin valves perform as well as the similar advanced overseas products and resulted in a large amount of orders in 2009. The other factor in the sales increase in 2009 was the continued extensive use of gate valves in the petro-chemical and nuclear power industries.

Revenue from ball valves for 2009 amounted to \$6.0 million, which is \$2.8 million or 88.9% more than that for 2008. These increases were attributable to the large market demand for the new generation products used in the petro-chemical industry.

**Cost of Sales.** Our cost of sales is primarily comprised of the costs of our raw materials, components, labor and overhead. Our cost of sales increased \$8.4 million to \$48.5 million in 2009 from \$40.1 million in 2008. The cost of sales, as a percentage of sales revenue, decreased from 60.2% in 2008 to 50.9% in 2009. The cost of sales decreases due to the design of a simple manufacturing system, which increased capital equipment utilization, eliminated waste, reduced the time it took to finish an activity from start to finish, increased production and decreased cycle time. The decrease in cost of raw materials also contributed to a decrease in cost of sales.

**Gross Profit.** Our gross profit is equal to the difference between our sales revenue and our cost of sales. Our gross profit increased \$20.3 million to \$46.8 million in 2009 from \$26.5 million in 2008. Gross profit as a percentage of net sales revenue increased to 49.1% from 39.8% for the same period in 2008. This increase resulted primarily from lower cost of sales and the increase volume of high-end products sales.

**General and Administrative Expenses .** Our general and administrative expenses, which consist primarily of related salaries and benefits, business development, travelling expenses, and legal and professional expenses, were \$7.3 million for 2009, compared with \$6.3 million for 2008, an decrease of \$1.0 million or approximately 15.9% .The increase is primarily due to increase in salary expense as from newly acquired Company, Taide Wote, as well as the Company hired more educated entry-level administrative personnel in both ZhengDie Valve and Tong hai Fluid. Travel expense and meal and entertainment expenses also increased due to various business acquisition activities. Depreciation expense increased as result of increased fixed asset purchases. G&A expense as % of total revenue is 8% in 2009 as compared to 10% in 2008. The decrease is primarily due to decreased rental expense in KF due to real estate transfer from the Casting Company.

**Selling Expenses.** Selling expenses, which consist primarily of sales commission, advertising and promotion expenses, sales tax, freight charges and related compensation, were \$6.3 million for 2009, compared with \$4.9 million for 2008, an increase of \$1.4 million or approximately 28.2%, which was in line with the sales revenue increase. However, with the implementation of the strengthened cost control policy in 2009, the percentage of sales and marketing expenses was as percent of sales 6.6%, compared to 7.4% of 2008.

**Total Operating Expenses.** Our total operating expenses decreased \$12.7 million to \$13.8 million in 2009 from \$26.5 million in 2008. The decrease was primarily attributable to the huge amount decrease from \$14,998,974 in 2008 of expenses relating to the release of our make-good escrow shares pursuant to the Make Good Escrow Agreement.

As described in Note 14 to the Company's December 31, 2009 consolidated financial statements, in connection with the Company's private placement on August 26, 2008, the Company entered into the Make Good Escrow Agreement, under which 12,583,032 shares of the Company's common stock held by Bin Li, the Company's major shareholder, were placed in escrow. These shares are the subject of an Earn-In Agreement between Bin Li and Siping Fang as described in Note 1 to the consolidated financial statements. Bin Li entered into the Make Good Escrow Agreement on behalf of Siping Fang. For each of the calendar years 2008, 2009 and 2010, 4,194,344 shares will be released to the investors or returned to the shareholder, depending on the fulfilment of specified earnings targets. In 2008, the Company recorded \$15.0 million expenses for the release of the escrow shares as the escrow shares were originally thought to be compensatory. However, in January 2010, FASB issued ASU No. 2010-05 Escrowed Share Arrangements and the Presumption of Compensation. This update codifies EITF Topic D-110, which clarifies overcoming the presumption that for certain shareholders these arrangements represent compensation. Historically, an escrowed share arrangement involving the release of shares to certain shareholders based on performance-related criteria is presumed to be compensatory. When evaluating whether the presumption of compensation has been overcome, substance of the arrangement should be considered, including whether the arrangement was entered into for purposes unrelated to, and not contingent upon, continued employment. If specific facts and circumstances indicate



that the arrangement, such as investors request that specific significant shareholders participate in an escrowed share arrangement, which will be released or canceled without regard to continued employment, is in substance an inducement made to facilitate the transaction on behalf of the company, rather than as compensatory, the arrangement should be recognized and measured according to its nature and reflected as a reduction of the proceeds allocated to the newly-issued securities. The Company's CEO, Siping Fang's, escrowed shares, in connection with the 2008 Make Good Escrow agreement, are placed in escrow at request of the investors and without regard to continued employment. Based on the clarification from the ASU, the release of the escrowed shares to SiPing Fang as result of the Company meeting the make good annual income target should not be recorded as compensation expense. Hence, the Company did not record compensation expense for Mr. Fang for the year ended December 31, 2009 as it did in 2008.

Excluding the non-cash compensation charge related to the make good provision amounting to \$15.0 million in 2008, as a percentage of sales revenue, our total operating expenses were 14.5% in 2009, compared with 17.3% in 2008.

**Income Before Income Taxes.** Excluding the non-cash compensation charge related to the make good provision of \$15.0 million in 2008, income before income taxes increased \$16.8 million, or 111%, to \$32 million in 2009 from \$15.1 million in 2008. Income before income taxes as a percentage of revenue slightly increased to 33.5% in 2009 from 22.8% in 2008.

**Net Income.** Excluding the non-cash compensation charge related to the make good provision of \$15 million in 2008, net income increased \$12.6 million, or 116.6%, to \$23.4 million in 2009 from \$10.8 million in 2008 as a result of 43.3% increase in sales revenue as demand for the Company's products continues to increase coupled with same level of operating expenses in 2009 and 2008, thus generated higher increase in net income in 2009.

### **Foreign Currency Translation Gains**

We had a foreign currency translation loss of \$0.007 million for 2009 as compared with a \$2.99 million currency translation gain in 2008. In July 2005, China reformed its foreign currency exchange policy and allowed the Renminbi to fluctuate as much as 0.3 percent per day against the U.S. dollar. We use period-end exchange rates in translating our assets and liabilities denominated in Renminbi into U.S. dollars and average exchange rates for the period to translate our income and expenses. At December 31, 2009, the period end exchange rate was RMB1 to US\$0.1467 and the average exchange rate for 2009 was RMB1 to US\$0.14661. At December 31, 2008, the period end exchange rate was RMB1 to US\$0.1467 and the average exchange rate for 2008 was RMB1 to US\$0.14415. The average exchange rate for 2009 compared with 2008 (RMB1 to US\$0.14661 and RMB1 to US\$0.14415, respectively) increased approximately 1.7% .

Our sales revenue increased by RMB 193.0 million or 43.3% compared with the same period in 2008 and our operating expenses decreased by RMB 89.6 million or 48.8% compared with the same period in 2008. As the Renminbi increased in value against the U.S. dollar during the period, our reported sales revenues and operating expenses were affected, increasing 44.6% and decreasing 47.9%, respectively, in U.S. dollar terms, as follows:

(in thousands)	Year Ended December 31,						Change			%
	2009			2008			US\$	RMB	US\$	
	US\$	Average Rate	RMB	US\$	Average Rate	RMB	US\$	RMB	US\$	
Revenue	95,370	0.14661	650,501	66,555	0.14415	461,707	28,814	188,794	43.3%	
Total operating expenses	13,804	0.14661	94,155	26,482	0.14415	183,711	(12,678)	(89,556)	(47.9)%	

### **Allowance for Doubtful Debts**

Our trade receivables net of allowance for doubtful accounts were \$32.3 million as of December 31, 2009, an increase of \$6.2 million, or 23.8%, from \$26.1 million as of December 31, 2008. Our allowance for doubtful accounts totaled \$908,338 as of December 31, 2009, compared with \$1,163,457 at December 31, 2008.

The increase in our trade receivables was mainly due to the overall increase in sales revenue. Generally we consider a trade receivable as a doubtful account only if it remains uncollected for more than one year from the due date. Our allowance for doubtful debts accounts for an insignificant portion of the receivable balance in spite of the increasing trade receivable balance throughout the reporting periods because we have improved our account receivables collections. Many of our customers have long business relationships with us and good settlement histories. In the absence of significant bad debt experience, we consider the existing provisioning policy as adequate.

### **Liquidity and Capital Resources**

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As of December 31, 2009, we had cash and cash equivalents of \$14.5 million and restricted cash of \$1.0 million. The following table provides summarized information about our net cash flow for 2009 and 2008.

	<b>Years Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(dollars in thousands)</b>	
Net cash provided (used in) by operating activities	\$ 25,083	\$ (927)
Net cash used in investing activities	(25,730)	(11,082)
Net cash provided (used in) by financing activities	(1,476)	25,438
Effect of foreign currency translation on cash and cash equivalents	180	226
Net (decrease) increase in cash and cash equivalents	(1,943)	13,655
Cash and cash equivalents, beginning of year	16,428	2,773
Cash and cash equivalents, end of year	\$ 14,485	\$ 16,428

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### ***Operating Activities***

In the fiscal year ended December 31, 2009, although our net income increased to \$23.3 million, our net cash flow provided by operating activities was \$25.1 million, an increase of \$26.1 million from the net cash used by operating activities of \$1 million for the same period in 2008,. This is attributed to a strong increase of net profit of \$12.6 million or 116.5% . Our accounts receivable, increased \$5.0 million while our sales increased by 43.3% . Our inventory has decreased \$1.6 million as we have improved our production cycle and reduced finished goods inventory as demand for our products continues to grow. Our other payables also declined significantly in 2009, adversely affecting our cash flow from operations. Previously, we delayed the payment of commissions to our sales personnel and in particular were able to pay large commissions in phases. In 2009, we continued to accelerate the payment of these commissions, in order to encourage our sales personnel in a continuing effort to enlarge our market share and increase sales.

### ***Investing Activities***

Our main uses of cash for investing activities are for acquisitions of other companies, which the two acquisitions were closed subsequent to year end of 2009. Also we spend another \$10.4 million on the acquisition of plant and equipment as well as purchases for construction. Net cash used in investing activities in 2009 was \$25.7 million, as compared with \$11.1 million in 2008. The increase in net cash used in investing activities was mainly attributable to greater equipment purchases, new factory construction and a \$13.2 million used in acquisition deposits in 2009.

### ***Financing Activities***

Net cash used in financing activities in 2009 totaled \$1.5 million as compared with net cash provided by financing activities of \$25.4 million in 2008. On August 26, 2008, we completed a private placement of our common shares to certain accredited investors for \$29.9 million in gross proceeds, resulting in \$26.7 million in net proceeds after payment of \$3.2 million in offering expenses. We used most of the proceeds from the private placement to acquire companies, which the Company had acquired two companies in 2010. On December 28, 2009, we completed a registered direct offering of our common shares to certain accredited investors for \$3 million gross proceeds, resulting in \$2.9 million in net proceeds.

Net cash provided by financing activities in 2008 totaled \$25.4 million, primarily attributable to the private placement on August 26, 2008.

Our debt to equity ratio was 0.24 as of December 31, 2009 as compared to 0.42 as of December 31, 2008. We believe we have greatly improved our company's position by decreasing our borrowings. We plan to maintain our debt to equity ratio at the ratio as of December 31, 2009.

As of December 31, 2009, the maturities for our bank loans are all below one year.

We believe that we maintain good relationships with the banks we deal with and our current available working capital, after receiving the aggregate proceeds of the capital raising activities and bank loans, should be adequate to sustain our operations at our current levels through at least the next twelve months.

### ***Capital Expenditures***

Our capital expenditures in 2009 and 2008 are set forth below. Our capital expenditures were used primarily for plant construction and purchases of equipment to expand our production capacity.

	<b>Years Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(in thousands)</b>	
Construction costs	\$ 7,178	\$ 5,880
Purchase of equipment	\$ 2,560	\$ 3,194
Advance on equipment & construction fee	\$ 655	\$ 1,654
Total capital expenditure	\$ 10,393	\$ 10,728

Our depreciation and amortization expense for the years ended December 31, 2009 and 2008, and the income statement line items in which it is included, was as follows:

	<b>Years Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(in thousands)</b>	
Cost of goods sold	\$ 945	\$ 430
General and administrative expenses	\$ 1,011	\$ 572
Total depreciation and amortization expense	\$ 1,956	\$ 1,002

Our total capital expenditures in fiscal year 2009 reached \$10.4 million, \$7.2 million of which was used to complete construction of a new plant in Kaifeng to increase our production capacity. \$3.2 million was used for purchase of new equipment and production line upgrades for companies we acquired in 2009. The expenditures was also used for equipment purchases, such as those for ultra-supercritical thermal power projects.

### ***Obligations under Material Contracts***

We did not have any long-term debt obligations, capital commitments, purchase obligations or other long-term liabilities as of December 31, 2009.

### **Critical Accounting Policies**

Our consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies

require a higher degree of judgment than others in their application.

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When reviewing our financial statements, the following should also be considered: (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of those policies, and (3) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

### ***Revenue Recognition***

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin 104. Sales revenue is recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv) the ability to collect is reasonably assured. These criteria are generally satisfied at the time of shipment when risk of loss and title passes to the customer.

The Company recognizes revenue when the goods are delivered and title has passed. Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by the VAT paid by the Company on raw materials and other materials included in the cost of producing the finished product.

### ***Foreign Currency Translation and Other Comprehensive Income***

The reporting currency of the Company is the US dollar. The functional currency of our Chinese operating entities High Pressure Valve and Zhengdie Valve, and Taizhou Taide Valve is the Renminbi (RMB).

For the subsidiaries whose functional currencies are other than the US dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; shareholders' equity is translated at the historical rates and items in the income and cash flow statements are translated at the average rate for the year. Because cash flows are calculated based using the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders' equity. The resulting translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Accumulated other comprehensive income in the consolidated statement of shareholders' equity amounted to \$ 6,151,902 and \$6,158,977 as of December 31, 2009 and 2008, respectively. The balance sheet amounts with the exception of equity at December 31, 2009 and 2008 were translated at 6.82 RMB and 6.82 RMB to \$1.00 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the year ended December 31, 2009 and 2008 were 6.82 RMB and 6.94 RMB to \$1.00, respectively.

### ***Income Taxes***

The Company follows Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109) that requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due plus deferred taxes. Because the Company had no operations within the United States there is no provision for US income taxes and there are no deferred tax amounts as of December 31, 2009 and 2008.

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption of FIN 48 had no affect on the Company's financial statements.



### ***Warranties***

We typically warranty all of our products. It is the Company's policy to replace parts if they become defective within one year after deployment at no additional charge. Historically, failure of product parts due to materials or workmanship is rare. Therefore, at December 31, 2009 and December 31, 2008, the Company made no provision for warranty claims for our products. Management continuously evaluates the potential warranty obligation. Management will record the expenses related to the warranty obligation if the estimated amount becomes material at the time revenue is recorded.

### ***Concentration Risks***

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Certain financial instruments may subject the Company to concentration of credit risk. The Company maintains bank deposits within state-owned banks within the PRC, Hong Kong and United States. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of December 31, 2009 and 2008, the Company's cash and restricted cash balances, totaling \$14,505,745 and \$11,984,233, respectively at those dates, were not covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

Five major suppliers represented approximately 17% and 21% of the Company's total purchases for the years ended December 31, 2009 and 2008, respectively. Five customers accounted for 11% and 13% of total sales as of December 31, 2009 and 2008 respectively.

### ***Accounts Receivable and Allowance For Doubtful Accounts***

The Company's business operations are conducted in the PRC. During the normal course of business, the Company extends unsecured credit to its customers by selling on various credit terms. Management reviews its accounts receivable on a quarterly basis to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. The Company's existing reserve is consistent with its historical experience and considered adequate by the management.

### ***Fair Value of Financial Instruments***

The Company adopted SFAS No. 157, Fair Value Measurements on January 1, 2008. SFAS No. 157 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and payables qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifang Commercial Bank in 1997. These long term investments are carried at the lower of cost or market value and amounted to \$764,515 and \$764,515 as of December 31, 2009 and December 31, 2008, respectively. There is no quoted or observable market price for the joint venture interest or other similar joint ventures; therefore, the Company used level 3 inputs for its valuation methodology. Based on its proportionate share of the underlying book value of the investees, the Company believes the fair value of the investments is at least equal to the original cost at which they are carried.

***Long Term Investment***

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifeng Commercial Bank in 1997. The Company owns approximately 0.07% of China Perfect Machinery Industry Co. Ltd. and approximately 0.82% of Kaifeng Commercial Bank. The Company does not have the ability to exercise control over the investee companies and the investments have been recorded under the cost method. These long term investments amounted to \$ 764,515 and \$764,515 as of December 31, 2009 and 2008, respectively.

The Company periodically evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment of long term investments in the event that the carrying value of the investment exceeds our proportionate share of the net book value of the investee. As of December 31, 2008, management believes no impairment charge is necessary.

### ***Goodwill***

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of all or a portion of a reporting unit. Our two operating subsidiaries are considered separate reporting units for purposes of this evaluation. Determining whether an impairment has occurred requires valuation of the respective reporting unit, which we estimate using a discounted cash flow method. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

We test other identified intangible assets with defined useful lives and subject to amortization by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. We test any other intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

The calculation of value in use for the operating unit is most sensitive to the following assumptions:

I. Operating margin;

II. Long-term growth rate; and

III. Discount rates.

Operating margins are based on the estimated effects of planned business operation. Approximately 87% of the Company's cost of goods sold consists of raw materials, of which approximately 60% is steel and iron. Our operating margin for the year of 2009 increased to 34.6% due to the increased market demand for our higher margin products.

We believe our estimated growth rate is reasonably projected at 50% per year, based on the following factors:

- The Company will benefit from the central government's announcement in November 2008 of a \$586 billion economic stimulus plan which will provide huge spending on infrastructure and construction including post-earthquake reconstruction in Sichuan Province. Three to five percent of the total infrastructure expenditure will go to the valve industry and valves regulate the flow of fluids and are widely used in a variety of industries and residential facilities.
- Before the stimulus plan, according to the General Machinery Industry Association of China, the size of the Chinese valve industry was expected to grow to \$12.25 billion in 2010 from \$9.75 billion in 2009 at a compound average growth rate of 26%.
- The Company also expects to benefit from China's aggressive plans to undertake new oil and gas pipeline projects and increase nuclear power capacity.
- The Company is seeking acquisitions to help the Company diversify its portfolio of fluid equipment products. Synergy from any acquisitions will also be expected to contribute to cost efficiency.

The discount rate applied to the cash flow projections is 6.5 per cent. This discount rate is derived from the Company's weighted average cost of capital, adjusted for the risks specific to the market. The discount rate reflects management's estimate of the long-run return on capital. Changes in our funding or the cost of that funding could result in changes to the discount rates used.

The Company performs a sensitivity analysis by increasing the discount rate to 10% and reducing the risk-adjusted cash flow projections (decrease in margins and decrease in growth) by 15 per cent; such adjustments have not indicated that there is any impairment of goodwill.

***Stock Based Compensation***

The Company applies Statement of Financial Accounting Standards on Accounting for Stock-Based Compensation , which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with the standard and the "Accounting for Equity Instruments that are issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services" standard, as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured. The standard allows the simplified method to determine the term of employee options when other information is not available.

The Company follows the guidance of the accounting standard on Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock. Accounting for Derivatives and Hedging Activities standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. The standard provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception. All Company warrants are denominated in U.S. dollars; because the Company's functional currency is the Renminbi, the Company accounts for these warrants as derivative instrument liabilities and marks them to market each period.

### **Recently issued accounting pronouncements**

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In April 2009, the Financial Accounting Standards Board ( FASB ) issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this guidance, fair values for these assets and liabilities were only disclosed annually. This guidance applies to all financial instruments and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity and clarifies the determination of whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. This accounting standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. This accounting standard will not have an impact on the Company's financial statements.

In June 2009, FASB issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities ( VIEs ). This standard modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. An ongoing reassessment is required of whether a company is the primary beneficiary of a variable interest entity. Further, it also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This accounting standard will be effective as of the beginning of the annual reporting period commencing after November 15, 2009. The Company does not expect this accounting standard to have an impact on the Company's financial statements.

In August 2009, FASB issued an Accounting Standards Update ( ASU ) regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In October 2009, FASB issued an Accounting Standards Update ( ASU ) regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In November 2009, FASB issued an ASU regarding accounting for stock dividends, including distributions to shareholders with components of stock and cash. This ASU clarifies that the stock portion of a distribution to shareholders that contains components of cash and stock and allows shareholders to select their preferred form of the distribution (with a limit on the amount of cash that will be distributed in total) should be considered a stock dividend and included in EPS calculations as a share issuance. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140. The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01 Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51. If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-05 Escrowed Share Arrangements and the Presumption of Compensation. This update codifies EITF Topic D-110, which clarifies overcoming the presumption that for certain shareholders these arrangements represent compensation. Historically, an escrowed share arrangement involving the release of shares to certain shareholders based on performance-related criteria is presumed to be compensatory. When evaluating whether the presumption of compensation has been overcome, substance of the arrangement should be considered, including whether the arrangement was entered into for purposes unrelated to, and not contingent upon, continued employment. If specific facts and circumstances indicate that the arrangement, such as investors request that specific significant shareholders participate in an escrowed share arrangement, which will be released or canceled without regard to continued employment, is in substance an inducement made to facilitate the transaction on behalf of the company, rather than as compensatory, the arrangement should be recognized and measured according to its nature and reflected as a reduction of the proceeds allocated to the newly-issued securities. The Company's CEO, SiPing Fang's, escrowed shares, in connection with the 2008 Make Good Escrow agreement, are placed in escrow at request of the investors and without regard to continued employment. Based on the clarification from the ASU, the release of the escrowed shares to SiPing Fang as result of the Company meeting the make good annual income target should not be recorded as compensation expense. Hence, the Company did not record compensation expense for Mr. Fang for the year ended December 31, 2009.

In January 2010, FASB issued ASU No. 2010-06 Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.



## **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

## **Seasonality**

Our operating results and operating cash flows historically have not been subject to seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

## **Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

Not required.

## **Item 8. Financial Statements and Supplementary Financial Data**

The full text of our audited consolidated financial statements as of December 31, 2009 and 2008 begins on page F-1 of this Annual Report on Form 10-K.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

We were notified that, effective January 1, 2010, certain partners of MSWFT and Frost, PLLC ( Frost ) formed Frazer Frost, LLP ( Frazer Frost ), a new partnership. Pursuant to the terms of a combination agreement by and among MSWFT, Frazer Frost and Frost (the Combination Agreement ), MSWFT and Frost each contributed substantially all of their assets and certain of their liabilities to Frazer Frost, resulting in Frazer Frost assuming MSWFT's engagement letter with us and becoming our new independent accounting firm. Frazer Frost is registered with the Public Company Accounting and Oversight Board (PCAOB).

## **Item 9A. Controls and Procedures.**

### ***(a) Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our chief executive officer and chief financial officer, Mr. Siping Fang and Ms. Ichi Shih, respectively, evaluated the effectiveness of our disclosure controls and procedures. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this report, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, Mr. Fang and Ms. Shih concluded that because of the material weakness in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2009, to satisfy the objectives for which they are intended.

### ***(b) Management's annual report on internal control over financial reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our

chief executive officer and chief financial officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

During our assessment of the effectiveness of internal control over financial reporting as of December 31, 2009, our management identified material weakness related to the following:

Accounting and Finance Personnel Weaknesses US GAAP expertise. Our current accounting staff is relatively new and inexperienced, and needs substantial training to meet the higher demands of being a U.S. public company. The accounting skills and understanding necessary to fulfill the requirements of U.S. GAAP-based reporting, including the skills of subsidiary financial statements consolidation, are inadequate and were inadequately supervised. The lack of sufficient and adequately trained accounting and finance personnel resulted in ineffective top level review and analysis of year-end evaluation of the Company's inventory and AR allowance.

As disclosed in our Management's Annual Report on Internal Control over Financial Reporting filed with the 2008 Form 10-K, the Company's management has identified the steps necessary to address the material weaknesses described above and in 2009, we continued to implement these remedial procedures.

1. Hire, as needed, additional US GAAP experienced accounting and operations personnel and outside contractors with technical accounting expertise and reorganized the accounting and finance department to ensure that accounting personnel with adequate experience, skills and knowledge relating to complex, non-routine transactions are directly involved in the review and accounting evaluation of our complex, non-routine transactions.
2. Involve, as needed, both internal accounting and operations personnel and outside contractors with technical accounting expertise early in the evaluation of our complex, non-routine transaction to obtain additional guidance as to the application of generally accepted accounting principles to such a proposed transaction.
3. Require that our senior accounting personnel and the principal accounting officer review our complex, non-routine transactions to evaluate and approve the accounting treatment for such transactions. We will also consult experts in the event that transaction is beyond our comprehension.
4. We are currently documenting and implementing internal control over financial reporting, however, as of December 31, 2009, we did not have sufficient time to remediate all deficiencies identified in order to render current year's internal control over financial reporting effective. We will continue monitor and improve controls over financial reporting in the coming year.

Our management is not aware that the material weakness in our internal control over financial reporting causes them to believe that any material inaccuracies or errors existed in our financial statement as of December 31, 2009. The reportable conditions and other areas of our internal control over financial reporting identified by us as needing improvement have not resulted in a material restatement of our financial statements. Nor are we aware of any instance where such reportable conditions or other identified areas of weakness have resulted in a material misstatement or omission in any report we have filed with or submitted to the Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management remains committed to improving its internal controls and will continue to work to put effective controls in place. The Company is actively recruiting staff with good knowledge of U.S. GAAP to assist in the Company's financial reporting.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this

annual report.

*(c) Changes in internal control over financial reporting*

Except as described above, there were no changes in our internal controls over financial reporting during our fiscal year ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III****Item 10. Directors, Executive Officers, and Corporate Governance****Directors and Executive Officers**

The following table sets forth the names, ages, and positions of our executive officers and directors as of March 13, 2009. Executive officers are elected annually by our Board of Directors. Each executive officer holds his office until he resigns, is removed by the Board, or his successor is elected and qualified. Directors are elected annually by our stockholders at the annual meeting. Each director holds his office until his successor is elected and qualified or his earlier resignation or removal.

<b>NAME</b>	<b>AGE</b>	<b>POSITION</b>
Siping Fang	57	President, Chief Executive Officer, Chairman and Secretary
Zengbiao Yu	55	Director
Ichi Shih	38	Chief Financial Officer
Peter Li	46	Director
William Haus	47	Director
Qizhong Xiang	62	Chief Technology Officer
Binjie Fang	37	Chief Operating Officer and Director

**Siping Fang , Chairman, Chief Executive Officer, Chairman and Secretary**

Mr. Fang has over 20 years of experience in the valve industry. In 2001, Mr. Fang established Zhengdie Valve and was appointed as President and CEO of that company. In 2003, Mr. Fang acquired state-owned enterprise High Pressure Valve and was appointed as President and CEO of the company. Mr. Fang has been responsible for making strategic decisions on major corporate issues and directing the operations and market expansion of both companies. In 2007, Mr. Fang became our CEO after the reverse acquisition of China Valve Samoa.

**Zengbiao Yu, Director**

Mr. Yu has been working as a professor and a Ph.D. tutor for Tsinghua University since 1999. Mr. Yu is currently the vice-president of Management Accounting Section of Accounting Society of China, director of Chinese Costing Association, independent director of Zhongyuan Special Steel Co., Ltd. and CNHTC Jinan Truck Co.,Ltd . In addition, he is a member of Editorial Advisory and Review Board of the *IMA Educational Case Journal* in U.S.A. As a PhD student, Mr. Yu had been educated jointly by the University of Illinois at Urbana-Champaign(UIUC) and Xiamen University(XU), and received his doctorate from XU in 1993. He had been Dean of Business School and Head of Accounting Department of Hebei University for more than 3 years. He was awarded "Certificates of High Attainment" from UIUC in 1991 and recognized as an "outstanding accountant" by the Ministry of Finance of PRC in 1995. He is author of more than 80 papers and 10 books on financial and managerial accounting.

**Ichi Shih, Chief Financial Officer**

Ms. Shih has more than 10 years of experience in financial industry. Since 2007, she served as vice president of Brean Murray, Carret Asia Investment Banking Group in New York, NY, assessing opportunities for new business, conducting valuation analysis and due diligence of public and private companies in China and Vietnam, and providing advice on mergers and acquisitions, public listings and private placement activities. Between 2003 and 2007, she was a senior associate at the Investment Banking Group of Westminster Securities in New York, NY, primarily focusing on financial modeling and valuation analysis. Between 1998 and 2000, she was a financial and business analyst for Goldman Sachs & Co, where she developed financial budget/forecast for the Finance and Planning Department in New York, NY. Ms. Shih obtained a Master's degree in International Finance and Business from the Columbia University and Bachelor's degree in Accounting and International Business from New York University. Ms. Shih is

also a Certified Public Accountant.

**William Haus, Director**

Mr. William Haus, age 45, has extensive experience in business and finance for public companies as well as China-based companies. Since August 2008, Mr. Haus is the CEO and director of CS China Acquisition Corporation, a special purpose acquisition corporation focused on effecting a business combination with a China-based private company. Over the past 8 years, Mr. Haus has worked in a variety of roles in analyzing companies and evaluating companies as potential investments. From September 2005 to May 2008, Mr. Haus was the Analyst for The Pinnacle Fund & The Pinnacle China Fund, both of which are hedge funds focused on investment opportunities in the United States and China. Between April 2005 and September 2005, he was the S.V.P. and Equity Research Analyst for Healthcare Information Technology and Pharmaceutical Outsourcing, Stanford Group Company, a securities brokerage firm. From March 2000 to March 2005, Mr. Haus was the Senior Equity Research Analyst for Healthcare Information Technology and Pharmaceutical Outsourcing, Advest, Inc., a securities brokerage firm. Mr. Haus graduated from the State University of New York College at Fredonia with a B.S. in business administration and a B.A. in economics and received a Master of Business Administration from Boston University. He is a Chartered Financial Analyst (CFA) and member of the CFA Institute. Mr. Haus is also independent director of China Valves Technology, Inc., a manufacturer of valves, listed on Nasdaq and China Nutrifruit Group Limited, a food products producer, listed on NYSE AMEX.

**Peter Li, Director**

Peter Li brings more than 15 years experience of corporate financial management, investor relationship management, corporate strategy and internal controls. Since August 2008, Mr. Li is a co-founder and director of CS China Acquisition Corp., an OTCBB listed company engaged in seeking a business combination with a Chinese operating company. Since June 2008, he is also an independent director and audit committee chairman for Yuhe International Inc., an OTCBB listed company in the broiler breeding business in China. Mr. Li is also a senior advisor to Yucheng Technologies, Ltd., a leading IT service provider to the banking industry in China. Between October 2004 and November 2006, Mr. Li was the CFO of Beijing Sihitech Technology Co. which merged to form Yucheng Technologies, Ltd. Prior to his tenure at Beijing Sihitech Technology Co., Mr. Li worked in corporate financial management with various companies, including the role of Internal Controller at Lenovo.

Mr. Li graduated from Beijing Foreign Studies University with a B.A. and received a Master of Education from the University of Toronto. Mr. Li is a Certified General Accountant in Ontario, Canada.

### **Qizhong Xiang, Chief Technology Officer**

Since 1998, Mr. Xiang has been working in various positions for the Company's subsidiary Zhengdie Valve as a valve engineer, vice president of marketing and director of research and development. Prior to joining the Company, Mr. Xiang was a valve engineer for Hong Cheng Co. Ltd.

### **Board Composition and Committees**

The Board of Directors is currently composed of five members: Siping Fang, Binjie Fang, William Haus, Peter Li and Zengbiao Yu. We currently have standing audit, corporate governance and nominating, and compensation committees.

Our audit committee comprises Peter Li, William Haus and Zengbiao Yu. Peter Li serves as the chairman of the audit committee. The audit committee is primarily responsible for reviewing the services performed by our independent auditors, evaluating our accounting policies and our system of internal controls. Mr. Li serves as our audit committee financial expert as that term is defined by the applicable SEC rules.

The corporate governance and nominating committee comprises William Haus, Peter Li and Zengbiao Yu with Mr. Yu as the chairman. The committee is primarily responsible for nominating directors and setting policies and procedures for the nomination of directors. The committee is also responsible for overseeing the creation and implementation of our corporate governance policies and procedures.

The compensation committee comprises Peter Li, William Haus and Zengbiao Yu with William Haus as the chairman. The compensation committee is primarily responsible for reviewing and approving our compensation and benefit policies, including compensation of executive officers.

### **Independent Directors**

Our Board is currently composed of five members, three of which, Peter Li, William Haus and Zengbiao Yu, are independent as that term is defined by Rule 4200(a)(15) of the NASDAQ listing standards.

### **Policy Regarding Board Attendance**

Our directors are expected to attend Board meetings as frequently as necessary to properly discharge their responsibilities and to spend the time needed to prepare for each such meeting. Our directors are expected to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so.

### **Family Relationships**

Mr. Binjie Fang is the son of Mr. Siping Fang. Other than otherwise disclosed, there are no other family relationships between any of our directors or executive officers.

### **Involvement in Certain Legal Proceedings**

None of our directors or executive officers has, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);

-

had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time; been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity; been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated; been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

### **Section 16(A) Beneficial Ownership Reporting Compliance**

Under U.S. securities laws, directors, certain executive officers and persons holding more than 10% of our common stock must report their initial ownership of the common stock, and any changes in that ownership, to the SEC. The SEC has designated specific due dates for these reports.



## Code of Ethics

On September 9, 2009, our board of directors adopted a new code of ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The new code replaces our prior code of ethics that applied only to our principal executive officer, principal financial officer, principal accounting officer or controller and any person who performed similar functions, and addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, including disclosure requirements under the federal securities laws, confidentiality, trading on inside information, and reporting of violations of the code. A copy of the Code of Ethics can be found on our website [www.cvalve.com](http://www.cvalve.com). China Valves, please make sure it was uploaded on the website.

## Item 11. Executive Compensation

### Summary Compensation Table

The following table sets forth information concerning all compensation awarded to, earned by or paid to the following persons for services rendered in all capacities during 2009 and 2008: Siping Fang, who became our President and Chief Executive Officer when we completed the reverse acquisition. No other executive officers received total compensation in excess of \$100,000 in any fiscal year.

Name and Principal Position	Year	Salary	Total (\$)
Siping Fang, President, CEO and Director (1)	2009	\$ 100,000	\$ 100,000
	2008	\$ 100,000	\$ 100,000

(1) Does not include a non-cash compensation charge of \$14,998,974 in connection with 4,194,344 common shares to be released for the year 2008 to Bin Li pursuant to the Make Good Escrow Agreement dated August 26, 2008, which shares are subject to the Earn-In Agreement between Bin Li and Siping Fang.

### Bonuses and Deferred Compensation

We do not have any bonus, deferred compensation or retirement plan.

### Options and Stock Appreciation Rights

We do not currently have a stock option or other equity incentive plan.

### Employment Contracts

On June 30, 2009, the Company and Ichi Shih entered into an employment agreement (the "Employment Agreement"), which is effective as of July 1, 2009 (the "Effective Date"). The Employment Agreement provides, among other things, that Ms. Shih's base salary will be US\$7,000 per month (the "Base Salary"). Additionally, within three months of the Effective Date, upon approval of the board of directors of the Company, the Company will grant Ms. Shih options to purchase 50,000 shares of the Company's common stock at the price of \$6.0 per share. Ms. Shih may exercise 33.336% of the option on the first anniversary of her employment of the Company, and 8.333% every three months after the first anniversary. The Employment Agreement contains covenants prohibiting Ms. Shih from competing with the Company during the two-year term and for two years thereafter. The Employment Agreement also prohibits Ms. Shih from disclosing any confidential information of the Company. The stock options granted to Ms. Shih have not yet been issued as of December 31, 2009. We have no employment contracts with any other of our executive officers or employees.

**Payment of Post-Termination Compensation**

The Company does not have change-in-control agreements with any of its executive officers, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

**Director Compensation**

The following table sets forth all compensation awarded to, earned by or paid to the directors in 2009:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Total
Zengbiao Yu	\$ 17,000	N/A	N/A	\$ 17,000
Siping Fang	N/A	N/A	N/A	N/A
Binjie Fang	N/A	N/A	N/A	N/A
Peter Li	\$ 12,000	N/A	\$ 101,250	\$ 113,250
William Haus	\$ 24,000	\$ 22,500	\$ 123,750	\$ 170,250

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Zengbiao Yu was appointed director effective as of January 30, 2008. We entered into an independent director indemnification agreement with Zengbiao Yu, pursuant to which he is entitled to \$17,000, as annual compensation for the services to be provided as an independent director, and as chairperson of various board committees, as applicable. Under the terms of the indemnification agreement, we agreed to indemnify the independent director against expenses, judgments, fines, penalties or other amounts actually and reasonably incurred by the independent director in connection with any proceeding if the independent director acted in good faith and in our best interests. It is our practice to reimburse our directors for reasonable travel expenses related to attendance at board of directors and committee meetings.

On November 22, 2008, the Company appointed Peter Li and William Haus as new directors of the Company to fill the vacancies created by Huifeng Chen and Renrui Tang's resignations from the board on the same day. We entered into separate independent director agreements with Peter Li and William Haus.

Mr. Li's agreement is effective as of November 22, 2008 for a term of two years. Under the terms of Mr. Li's agreement, the Company agreed to pay Mr. Li a monthly fee of \$1,000, as compensation for the services to be provided by him as a director of the Company. The Company also agreed to grant a non-qualified stock option to Mr. Li for the purchase of 22,500 shares of common stock of the Company at an exercise price of \$8.00. One third of the options (or 7,500 shares) will vest on November 22, 2009. The remaining options will vest in eight equal quarterly installments (or 1,875 shares each installment) over a two-year period in every quarter after November 22, 2009. The stock option expires in five years. Mr. Li's agreement also contains customary confidentiality and non-compete provisions.

The agreement with Mr. Haus became effective on December 1, 2008 and was revised on June 29, 2009. Under the terms of Mr. Haus's agreement, the Company agreed to pay Mr. Haus a monthly fee of \$2,000, as compensation for the services to be provided by him as a director of the Company. The Company also agreed to grant 5,000 shares of common stock to Mr. Haus on June 29, 2009. On June 29, 2009, the Company agreed to grant a non-qualified stock option to Mr. Haus for the purchase of 27,500 shares of common stock of the Company at an exercise price of \$6.00. The stock option expires on June 28, 2014. Mr. Haus's agreement also contains customary confidentiality and non-compete provisions.

The stock options and restricted common shares granted to Mr. Li and Mr. Haus have not yet been issued as of December 31, 2009.

Mr. Siping Fang and Mr. Binjie Fang are paid in their capacity as executive officers of the Company and they do not receive any additional compensation for their service as directors.

### **Limitation of Liability and Indemnification of Officers and Directors**

Our bylaws provide for the indemnification of our present and prior directors and officers or any person who may have served at our request as a director or officer of another corporation in which we own shares of capital stock or of which we are a creditor against expenses actually and necessarily incurred by them in connection with the defense of any actions, suits or proceedings in which they, or any of them, are made parties, or a party, by reason of being or having been director(s) or officer(s) of us or of such other corporation, in the absence of negligence or misconduct in the performance of their duties. This indemnification policy could result in substantial expenditure by us, which we may be unable to recoup.

Insofar as indemnification by us for liabilities arising under the Securities Exchange Act of 1934 may be permitted to our directors, officers and controlling persons pursuant to provisions of the Articles of Incorporation and Bylaws, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy and is,

therefore, unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

At the present time, there is no pending litigation or proceeding involving a director, officer, employee or other agent of ours in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth certain information regarding our common stock \$0.001 par value, beneficially owned on March 24, 2010, for (i) each shareholder known to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our officers and directors, and (iii) all executive officers and directors as a group.

Unless otherwise specified, the address of each of the persons set forth below is in care of China Valves Technology, Inc., No. 93 West Xinsong Road, Kaifeng , Henan Province, China 475002.

Name & Address of Beneficial Owner	Office, if Any <b>Officers and Directors</b>	Amount & Nature of Beneficial Ownership (1)	Percent of Class (2)
Siping Fang	Chief Executive Officer, President and Chairman	0	*
Ichi Shih	Chief Financial Officer	0	*
Binjie Fang	Chief Operating Officer and Director	0	*
Qizhong Xiang	Chief Technology Officer	0	*
William Haus 5700 Henry Cook Blvd. Suite #6333, Plano, TX 75024-4542	Director	0	*
Peter Li C/O CS China Acquisition Corp. 4100 N. E. Second Avenue, Miami, FL 33137	Director	0	*
Zengbiao Yu Director		0	*
All officers and directors as a group (7 persons named above)		0	0%
<b>5% Securities Holder</b>			
Bin Li 1165 Rugglestone Way, Duluth, GA 30097		12,583,032	36.4%
Bin Fang		2,325,000	6.72%
Barry M. Kitt c/o Pinnacle Fund, L.P. 4965 Preston Park Blvd. Suite 240, Plano, Texas 75093		3,358,400 <sup>(3)</sup> <sup>(4)</sup>	9.7%

\* Less than 1%.

<sup>1</sup> Beneficial ownership is determined in accordance with the rules of the Commission and includes voting or investment power with respect to the ordinary shares.

<sup>2</sup> A total of 34,552,107 shares of our common stock as of March 23, 2010 are considered to be outstanding pursuant to the Commission Rule 13d-3(d)(1). For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.

<sup>3</sup> Pinnacle Advisers, L.P. ( Advisers ) is the general partner of The Pinnacle Fund, L.P. ( Pinnacle ). Pinnacle Fund Management, LLC ( Management ) is the general partner of Advisers. Pinnacle owned 1,679,200 Mr. Barry Kitt is the sole member of Management. Mr. Kitt has dispositive and voting power over the shares and may be deemed to be the beneficial owner of the shares of common stock beneficially owned by Pinnacle. Mr. Kitt disclaims beneficial ownership of the shares to the extent of his direct or indirect pecuniary interest.

<sup>4</sup> Pinnacle China Advisers, L.P. ( China Advisers ) is the general partner of Pinnacle China Fund, L.P. ( Pinnacle China ). Pinnacle China Management, LLC ( China Management ) is the general partner of China Advisers. Kitt China Management, LLC ( China Manager ) is the manager of China Management. Pinnacle China owned 1,679,200 shares of the Company s common stock as based on the 13G/A filed on February 10, 2010. Mr. Barry Kitt is the manager of China Manager. Mr. Kitt has dispositive and voting power over the shares and may be deemed to be the beneficial owner of the shares of common stock beneficially owned by Pinnacle China. Mr. Kitt disclaims beneficial ownership of the shares to the extent of his direct or indirect pecuniary interest.

### *Changes in Control*

There are no arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

## **Item 13. Certain Relationships and Related Transactions, and Director Independence**

### **Transactions with Related Persons**

The following includes a summary of transactions since the beginning of 2009, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under Executive Compensation ). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were no less favorable to the Company than the terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions.

The Company received advances from Siping Fang, Chief Executive Officer and Chairman, for cash flow purposes. As of December 31, 2009 and December 31, 2008 the outstanding amount due to Mr. Fang was \$1,707,353 and \$858,367, respectively. The advances are unsecured, interest-free and have no fixed terms of repayment, but are expected to be repaid in cash. In 2007, Siping Fang contributed \$1,249,999 to the Company's subsidiary, Zhengdie Valve, to fulfill its PRC registered capital requirement. In 2008, during the reorganization of the ownership of the Operating Subsidiaries (see Item 1 Business Reorganization), Siping Fang contributed a further RMB 10 million (\$1,317,095) to the Operating Subsidiaries to enable them to meet their approved PRC registered capital requirements. Following our re-acquisition of the legal ownership of the Operating Subsidiaries and the subsequent consummation of the Securities Purchase Agreement related to the private placement of our common stock, this contribution is to be returned to Mr. Fang.

The Company borrowed money from certain employees for cash flow purposes. The loans bear interest at 10% per annum with no fixed repayment terms. Loans from employees amounted to \$184,817 and \$131,263 as of December 31, 2009 and December 31, 2008, respectively.

As a condition precedent to the consummation of the Securities Purchase Agreement related to the private placement of our common stock, on August 26, 2008, High Pressure Valve and the Casting Company entered into an Agreement for the Transfer of Land Use Right and Housing Titles (the **Real Estate Transfer Agreement** ) for the transfer of certain land use rights and buildings to High Pressure Valve (the **Real Estate** ). As the transfer was expected to take approximately ten months to complete with relevant Chinese government agencies, on August 26, 2008, High Pressure Valve and the Casting Company also entered into a Lease Agreement (the **Lease Agreement** ) pursuant to which the Casting Company agreed to lease the Real Estate to High Pressure Valve until the latter acquires title to the Real Estate. In addition, High Pressure Valve and the Casting Company entered into a Leaseback Agreement (the **Leaseback Agreement** ) pursuant to which High Pressure Valve agreed to lease a portion of the Real Estate to the Casting Company for a period of one year starting on the date of the acquisition of title to the Real Estate by High Pressure Valve.

In connection with the Real Estate Transfer Agreement, on August 26, 2008, the Company entered into a Real Estate Share Escrow Agreement with the shareholder of the Casting Company, Mr. Bin Fang, Brean Murray, Carret & Co., LLC and Escrow, LLC (the **Real Estate Escrow Agreement** ), pursuant to which the Company agreed to issue and place in escrow for the benefit of Mr. Fang or his designee, 2,750,000 shares of the Company's common stock (the **Real Estate Shares** ) in exchange for Mr. Fang's agreement to cause the Casting Company to transfer the Real Estate under the Real Estate Transfer Agreement. The Real Estate was transferred to High Pressure Valve on March 6, 2009 and 2,750,000 shares was released to Mr. Bin Fang.

As a result of the Company's issuance of contingent shares to the Casting Company's shareholder, Mr. Bin Fang, the Casting Company became an 8.81% shareholder and a related party. Mr. Bin Fang is not related to either Mr. Siping Fang, our Chief Executive Officer and Chairman or Mr. Binjie Fang, our Chief Operating Officer and a director. As of December 31, 2008 advances on inventory purchases due to the Casting Company amounted to \$385,066 million.

On August 26, 2008, High Pressure Valve and the Casting Company, our largest supplier, entered into a Manufacturing and Supply Agreement pursuant to which the Casting Company agreed to provide High Pressure Valve with molds, casts, dies and other supplies and equipment for use in the manufacture of High Pressure Valve's products. The Casting Company also agreed to use its production capacity to fulfill High Pressure Valve's orders before it may take any orders from third parties. The term of the agreement is five years. The agreement does not require High Pressure Valve to purchase any minimum volume or value of products. Prices will be determined at the time orders are submitted to the Casting Company, based on prevailing market prices.



## Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

## Director Independence

Our Board is currently composed of 5 members, of which Zengbiao Yu, Peter Li and William Haus are independent as that term is defined under the NASDAQ listing standards.

All actions of the board of directors require the approval of a majority of the directors in attendance at a meeting at which a quorum is present. Our directors have a duty of to act in good faith with a view to our interests. In fulfilling their duty of care to us, our directors must ensure compliance with our Certificate of Incorporation. During 2009, our board met four times and no director missed any meetings of the board.

## Item 14. Principal Accountant Fees and Services.

Frazer Frost LLP, ( Frazer Frost ) are the Company's independent PCAOB registered public accounting firm and were engaged to examine the Company's consolidated financial statements for the fiscal years ended December 31, 2009 and 2008.

**Audit Fees.** Frazer Frost was paid aggregate fees of approximately \$325,891 and \$297,816 for the fiscal years ended December 31, 2009 and 2008, respectively, for professional services rendered for the audit of our annual financial statements.

**Tax Fees.** Frazer Frost was paid \$13,000 for the fiscal year ended December 31, 2009 for professional services rendered for tax compliance and \$7,000 was paid for the fiscal year ended December 31, 2009.

**All Other Fees .** Frazer Frost was paid no other fees for professional services during the fiscal years ended December 31, 2009 and 2008.

## Board of Directors Pre-Approval Policies and Procedures

Our Board of Directors has adopted the policy to pre-approve audit and permissible non-audit services provided by our independent auditors.

## PART IV

## Item 15. Exhibits, Financial Statement and Schedules

- (a) The following documents are filed as part of this Report:
- |     |   |   |
|-----|---|---|
| (1) | Financial Statements are set forth beginning on page F-1 of this Report   |   |
|     | Section 1.  | Report of Independent Registered Public Accounting Firm F-2 |
|     | Section 2.  | Consolidated Balance Sheets F-3                             |
|     | Section 3.  | Consolidated Statements of Operations F-4                   |
|     | Section 4.  | Consolidated Statement of Stockholders' Equity F-5          |
|     | Section 5.  | Consolidated Statements of Cash Flows F-6                   |
|     | Section 6.  | Notes to Consolidated Statements F-7-F-25                   |
| (2) | Financial Statement Schedules: All Schedules are omitted because the information called for is not applicable, is not required, or because the financial information is set forth in the financial statements or notes thereto. |   |
| (3) | Exhibits  |   |



**Exhibits (Including Those Incorporated By Reference).**

**Exhibit Index**

**Exhibit No. Description**

2.1	Share Exchange Agreement, dated December 18, 2007, among the Company, the stockholders of the Company, China Valves and the China Valves Shareholder (incorporated herein by reference to Exhibit 2.1 to the registrant's current report on Form 8-K filed on December 21, 2007).
3.1	Articles of Incorporation of the Company as filed with the Secretary of State of Nevada on August 1, 1997 (incorporated herein by reference to Exhibit 3.1 to the SB-2 Registration Statement filed on November 1, 2001)
3.2	Certificate of Amendment to Certificate of Incorporation changing the corporate name filed with the Secretary of State of Nevada (incorporated herein by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed on December 21, 2007).
3.3	Bylaws of the registrant, as amended to date, (incorporated herein by reference to Exhibit 3.2 to the SB-2 Registration Statement filed on November 1, 2001).
3.4	Certificate to Accompany Restated Articles or Amended and Restated Articles of China Valves Technology, Inc. (incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed on July 30, 2009).
4.1	Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on December 31, 2009).
4.2	Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on December 29, 2009).
10.1	Form of Securities Purchase Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on August 27, 2008).
10.2	Form of Registration Rights Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed on August 27, 2008).
10.3	Escrow Agreement, dated August 26, 2008, by and among the Company, Brean Murray, Carret & Co., LLC, The Pinnacle Fund, LLC, Pinnacle China Fund, LLC and Escrow, LLC. (incorporated herein by reference to Exhibit 10.4 to the registrant's current report on Form 8-K filed on August 27, 2008).
10.4	Form of Holdback Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed on August 27, 2008).
10.5	Form of Make Good Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.3 to the registrant's current report on Form 8-K filed on August 27, 2008).
10.6	Form of Lockup Agreement, dated August 26, 2008 by and between the Company and the stockholders listed therein (incorporated herein by reference to Exhibit 4.2 to the registrant's current report on Form 8-K filed on August 27, 2008).

- 10.7 Form of Warrant (incorporated herein by reference to Exhibit 4.3 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.8 English version of Agreement for Transfer of Land Use Right and Housing Titles, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.5 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.9 English version of Premises Lease Agreement, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.6 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.10 English version of Premises Leaseback Agreement, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.7 to the registrant's current report on Form 8-K filed on August 27, 2008).

- 10.11 Real Estate Share Escrow Agreement, dated August 26, 2008, by and among the Company, Bin Fang and Brean Murray, Carret & Co., LLC. (incorporated herein by reference to Exhibit 10.8 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.12 English version of Manufacturing and Supply Agreement, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.9 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.13 Employment Agreement with Veronica Jing Chen dated September 19, 2008 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on September 23, 2008).
- 10.14 Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on December 27, 2009)
- 10.15 Amendment Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 30, 2009 (incorporated herein by reference to Exhibit 10.3 to the registrant's current report on Form 8-K filed on December 31, 2009.)
- 10.16 Form of Securities Purchase Agreement (incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on December 29, 2009)
- 10.17 Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed on December 29, 2009)
- 10.18 English Translation of Employment Agreement with Ichi Shih dated June 30, 2009 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on July 1, 2009).
- 10.19 Asset Purchase Agreement, dated as of February 15, 2009, by and between Taizhou Taide Valve Co., Ltd. and Taizhou Wote Valve Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on April, 21, 2009).
- 10.20 Amendment to Registration Rights Agreement, dated March 4, 2009, among China Valves Technology, Inc. and the purchasers identified therein. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on March 9, 2009).
- 21 List of Subsidiary \*
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a). \*
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a). \*
- 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. \*
- 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. \*

\* filed herein.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CHINA VALVES TECHNOLOGY, INC.**March 28, 2010

(Date Signed)

By /s/ Siping Fang

Siping Fang, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

Each person whose signature appears below hereby authorizes Siping Fang as attorney-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this annual report on Form 10-K.

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
<i>/s/ Siping Fang</i> Siping Fang	President, Director and Chief Executive Officer (Principal Executive Officer)	March 28, 2010
<i>/s/ Ichi Shih</i> Ichi Shih	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 28, 2010
<i>/s/ Peter Li</i> Peter Li	Director	March 28, 2010
<i>/s/ William Haus</i> William Haus	Director	March 28, 2010
<i>/s/ Zengbiao Yu</i> Zengbiao Yu	Director	March 28, 2010
<i>/s/ Binjie Fang</i> Binjie Fang	Chief Operating Officer and Director	March 28, 2010

**Exhibit No. Description**

- 2.1 Share Exchange Agreement, dated December 18, 2007, among the Company, the stockholders of the Company, China Valves and the China Valves Shareholder (incorporated herein by reference to Exhibit 2.1 to the registrant's current report on Form 8-K filed on December 21, 2007).
- 3.1 Articles of Incorporation of the Company as filed with the Secretary of State of Nevada on August 1, 1997 (incorporated herein by reference to Exhibit 3.1 to the SB-2 Registration Statement filed on November 1, 2001)
- 3.2 Certificate of Amendment to Certificate of Incorporation changing the corporate name filed with the Secretary of State of Nevada (incorporated herein by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed on December 21, 2007).
- 3.3 Bylaws of the registrant, as amended to date, (incorporated herein by reference to Exhibit 3.2 to the SB-2 Registration Statement filed on November 1, 2001).
- 3.4 Certificate to Accompany Restated Articles or Amended and Restated Articles of China Valves Technology, Inc. (incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed on July 30, 2009).
- 4.1 Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on December 31, 2009).
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- 10.3 Escrow Agreement, dated August 26, 2008, by and among the Company, Brean Murray, Carret & Co., LLC, The Pinnacle Fund, LLC, Pinnacle China Fund, LLC and Escrow, LLC. (incorporated herein by reference to Exhibit 10.4 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.4 Form of Holdback Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed on August 27, 2008).
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- 10.8 English version of Agreement for Transfer of Land Use Right and Housing Titles, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.5 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.9 English version of Premises Lease Agreement, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.6 to the registrant's current report on Form 8-K filed on August 27, 2008).
- 10.10 English version of Premises Leaseback Agreement, dated August 26, 2008, by and between the Company's wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.7 to the registrant's current report on Form 8-K filed on August 27, 2008).

- 10.11 Real Estate Share Escrow Agreement, dated August 26, 2008, by and among the Company, Bin Fang and Brean Murray, Carret & Co., LLC. (incorporated herein by reference to Exhibit 10.8 to the registrant's current report on Form 8-K filed on August 27, 2008).
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- 10.13 Employment Agreement with Veronica Jing Chen dated September 19, 2008 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on September 23, 2008).
- 10.14 Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on December 27, 2009)
- 10.15 Amendment Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 30, 2009 (incorporated herein by reference to Exhibit 10.3 to the registrant's current report on Form 8-K filed on December 31, 2009.)
- 10.16 Form of Securities Purchase Agreement (incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on December 29, 2009)
- 10.17 Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed on December 29, 2009)
- 10.18 English Translation of Employment Agreement with Ichi Shih dated June 30, 2009 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on July 1, 2009).
- 10.19 Asset Purchase Agreement, dated as of February 15, 2009, by and between Taizhou Taide Valve Co., Ltd. and Taizhou Wote Valve Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on April, 21, 2009).
- 10.20 Amendment to Registration Rights Agreement, dated March 4, 2009, among China Valves Technology, Inc. and the purchasers identified therein. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on March 9, 2009).
- 21 List of Subsidiary \*
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a). \*
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a). \*
- 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. \*
- 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. \*

\* filed herein.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
China Valves Technology, Inc and Subsidiaries

We have audited the accompanying consolidated balance sheets of China Valves Technology, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations and other comprehensive income (loss), shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2009. China Valves Technology, Inc. and subsidiaries' management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Valves Technology, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/ Frazer Frost, LLP (Successor Entity of Moore Stephens Wurth Frazer and Torbet, LLP, see Form 8-K filed on January 7, 2010)

Brea, California  
March 26, 2010

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2009 AND 2008

ASSETS

	December 31,	
	2009	2008
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 14,485,408	\$ 16,427,883
Restricted cash	1,047,389	3,191,237
Notes receivable	414,193	880,200
Accounts receivable, net of allowance for doubtful accounts of \$908,338 and \$1,163,457 as of December 31, 2009 and 2008, respectively	32,341,042	26,119,447
Other receivables	4,481,610	4,841,691
Inventories, net	9,246,801	11,244,442
Advances on inventory purchases	1,321,914	1,108,512
Advance on inventory purchases - related party	385,066	1,367,446
Prepaid expenses	246,046	52,921
Rental prepayment - short-term	307,630	-
<b>Total current assets</b>	<b>64,277,099</b>	<b>65,233,779</b>
PLANT AND EQUIPMENT, net	28,468,866	16,184,894
<b>OTHER ASSETS:</b>		
Accounts receivable - retainage, long term	1,523,395	2,541,418
Deposits for acquisition	13,215,650	-
Advances on equipment purchases	654,931	2,001,733
Rental prepayment - long-term	307,630	-
Long-term receivable	440,100	382,552
Goodwill	20,811,767	20,811,767
Intangibles, net	9,639,180	823,331
Other investments, at lower of cost or market	764,515	764,515
<b>Total other assets</b>	<b>47,357,168</b>	<b>27,325,316</b>
<b>Total assets</b>	<b>\$ 140,103,133</b>	<b>\$ 108,743,989</b>

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$ 6,953,499	\$ 6,630,574
Short-term loans	5,048,246	7,839,960
Short-term loans - related parties	184,517	596,791
Other payables	2,662,930	4,453,881
Other payables - related party	1,707,353	1,975,462
Notes payable	733,500	2,934,000
Accrued liabilities	2,033,626	2,382,138
Customer deposits	3,325,906	3,129,708
Taxes payable	2,293,346	1,227,338
<b>Total current liabilities</b>	<b>24,942,923</b>	<b>31,169,852</b>
WARRANT LIABILITIES	1,730,837	924,291
<b>Total liabilities</b>	<b>26,673,760</b>	<b>32,094,143</b>

**COMMITMENTS AND CONTINGENCIES**

**SHAREHOLDERS' EQUITY:**

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Common stock, \$0.001 par value; 300,000,000 shares authorized; 31,727,212 shares and 31,192,552 shares issued and outstanding as of December 31, 2009 and 2008, respectively	31,726	31,192
Additional paid-in-capital	70,534,943	66,935,968
Common stock subscription receivable	-	(9,834,000)
Statutory reserves	5,534,575	2,958,659
Retained earnings	31,176,227	10,399,050
Accumulated other comprehensive income	6,151,902	6,158,977
Total shareholders' equity	113,429,373	76,649,846
Total liabilities and shareholders' equity	\$ 140,103,133	\$ 108,743,989

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these statements.

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CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND OTHER COMPREHENSIVE INCOME (LOSS)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
REVENUE	\$ 95,370,012	\$ 66,555,056
COST OF GOODS SOLD	48,527,336	40,082,152
GROSS PROFIT	46,842,676	26,472,904
EXPENSES:		
Selling expense	6,317,766	4,929,728
General and administrative	7,312,439	6,335,261
Research and development	126,750	217,698
Non-cash stock compensation expense	47,057	14,998,974
Total Operating Expenses	13,804,012	26,481,661
INCOME (LOSS) FROM OPERATIONS	33,038,664	(8,757)
OTHER (INCOME) EXPENSE :		
Other income, net	(510,692)	(537,767)
Interest and finance expense, net	128,518	486,946
Change in fair value of derivative instruments	1,508,997	(100,479)
Total Other Expense (Income) , net	1,126,823	(151,300)
INCOME BEFORE PROVISION FOR INCOME TAXES	31,911,841	142,543
PROVISION FOR INCOME TAXES	8,558,748	4,379,388
NET INCOME (LOSS)	23,353,093	(4,236,845)
OTHER COMPREHENSIVE INCOME		
Foreign currency translation (loss) gain	(7,075)	2,985,232
COMPREHENSIVE INCOME (LOSS)	\$ 23,346,018	\$ (1,251,613)
BASIC EARNINGS (LOSS) PER SHARE:		
Weighted average number of shares	30,771,356	22,987,213
Basic earnings (loss) per share	\$ 0.76	\$ (0.18)
DILUTED EARNINGS (LOSS) PER SHARE:		
Weighted average number of shares	30,946,392	22,987,213
Diluted earnings (loss) per share	\$ 0.75	\$ (0.18)

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these statements.



CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Common Stock		Additional	Common Stock	Retained Earnings		Accumulated other	
	Number	Par	Paid-in	Subscription	Statutory	Unrestricted	comprehensive	Total
	of shares	Value	capital	receivable	reserves		income	
BALANCE, December 31, 2007	20,053,250	\$ 20,053	\$ 16,385,083	\$ -	\$ 1,749,601	\$ 15,844,953	\$ 3,173,745	\$ 37,173,435
Shareholder contribution			1,317,095					1,317,095
Common stock issuance for cash at \$1.788	8,389,302	8,389	25,720,661					25,729,050
Common stock issuance for real estate acquisition at \$1.788	2,750,000	2,750	9,831,250	(9,834,000)				-
Stock compensation expense related to Make Good Escrow Agreement								